

## ATTACHMENT

### BANK LENDING TO SMALL AND MEDIUM ENTERPRISES

#### IN THE REPUBLIC OF SERBIA - TABLES AND GRAPHS<sup>1</sup>

**The study on Bank Lending to Small and Medium Enterprises (SME) in Serbia uses methodology developed by the Bank, based on banks' answers to standard questionnaires and detailed on-site interviews with eight banks.** The interviewed banks are different types of banking institutions. Of the eight banks, five are subsidiaries of major banks in the European Union<sup>2</sup>, one is an international bank specialized in SME lending<sup>3</sup> and two are larger locally owned banks<sup>4</sup>.

**The questionnaire covered three topics of interest for SME finance, including strategic interest in SME markets, SME business model and SME risk management.** Questions on strategic interest in SME market were answered by the manager who has an overview of the bank's SME business. Business models used in dealing with SMEs were discussed with the SME business manager and the credit risk manager. Questions on risk management were discussed with the credit risk management.

**This Attachment to contains tables and graphs that summarize answers of the eight banks.** The percentages referred to in this study were calculated based on the sample of total banks interviewed. By definition, each bank accounted for 12.5 percent of the total sample<sup>5</sup>. Although the size, ownership and business characteristics of the banks interviewed in Serbia were different, the percentage was not related to the size of the bank or of its SME portfolio, or to its specialization.

**The numbering of tables and graphs corresponds to numbering of the initial study which introduced the methodology.** The methodology was designed for a study of SME lending in Argentina and Chile. It was followed by a study for Columbia. In ECA, the study started with Serbia. In order to be able to compare the responses and eventually combine the studies to cover the whole world, the related tables and graphs needed to have the same numbering for all countries.

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<sup>1</sup> This Attachment was prepared by Cara Zappata, (then) ECSPF, in August 2007.

<sup>2</sup> The major international banks interviewed are Raiffeisen from Austria, Societe Generale from France, Hypo Alpe Adria (HAA) from Austria, Intesa Bank from Italy and UniCredit from Austria.

<sup>3</sup> ProCredit Bank is well known in the area and specialized in SME lending, with shareholders including EBRD and a number of German banks.

<sup>4</sup> Komercijalna Banka is the largest domestically owned bank with major shareholders being the state (40%) and EBRD (25%). Agro-Industrijska Komercijalna Banka - AIK is a local bank with minority share of HAA (about 7%) and the remainder are about 3000 small (local) private investors.

<sup>5</sup> For example, if six out of eight banks responded positively to a question, the quoted percentage would be 75 percent.

**Table 1a. Definition of SEs**

<b>Bank</b>	<b>Definition</b>
Agro Bank	Registered entrepreneurs borrowing < 50000 euros
Hypo Alpe Aldria	Average sales up to Euro 1 million; Credit with Hypo of less than Euro 200,000
Intesa	Annual Turnover between Euro 500,000 to Euro 2 million
Komercijalna	Average sales less than Euro 2.5 million; total assets less than Euro 1 million; total employees less than 50
ProCredit	Average sales up to Euro 750,000; Client size in total loan exposure from Euro 10,000 to Euro 50,000
Raiffeisen	Average sales between Euro 500,000 to Euro 3.5 million; bank exposure of less Euro 100,000
Societe Generale	Average sales from Euro 50,000 to Euro 3 million; total employees from 1 to 50
UniCredit	Average sales up to Euro 2.5 million

**Table 1b. Definition of MEs**

<b>Bank</b>	<b>Definition</b>
Agro Bank	Loans to entrepreneurs >50000 euros
Hypo Alpe Aldria	Average sales over Euro 1 million; Credit with Hypo of more than Euro 200,000
Intesa	Annual Turnover between Euro 2-10 million
Komercijalna	Average sales between Euro 2.5 million to Euro 10 million; total assets between Euro 1 million to Euro 5 million; total employees between 50 and 250
ProCredit	Client average sales over Euro 750,000; Client's total assets over Euro 400,000; Client size in total loan exposure from Euro 50,000
Raiffeisen	Average sales between Euro 3.5 million and Euro 10 million
Societe Generale	Average sales from Euro 3 million to Euro 10 million; total employees from 10 to 200
UniCredit	Average sales between Euro 2.5 million to Euro 5 million

**Table 2. Percentage of banks which consider the obstacle at least significant**

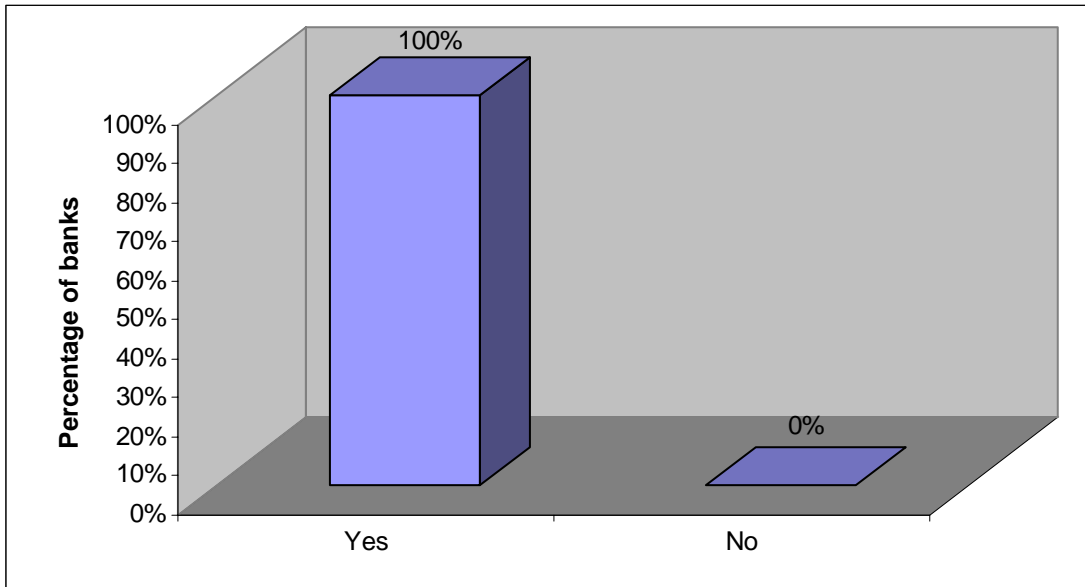
Type of obstacle	%	Frequently mentioned factors
Legal and contractual environment	88%	Contract enforcement Collateral law Judicial efficiency
SME-specific factors	75%	Quality of financial statements Lack of collateral
Regulations	75%	Prudential regulations Provisioning Tax issues Reserve requirements
Competition in SME segment	63%	Pressure on interest margins Too many banks
Macroeconomic factors	63%	Financial condition of client Macroeconomic instability Market condition Exchange rate risk
Nature of SME lending technology	63%	High cost per transaction Difficulty to standardize products and procedures Monitoring difficult and requires a lot of staff time
Lack of adequate demand	38%	Demand, but from unworthy customers
Bank-specific factors	13%	N/A

**Table 3 – Actions Undertaken by Banks to deal with Non-Performing Loans**

Frequently mentioned actions undertaken	Percentage of banks
<i>First action</i>	
File court required information	50%
Call guarantees	25%
Treated as non-performing	25%
<i>Second action</i>	
Re-evaluate collateral	

Figure 1 - Bank involvement with SMEs (I)

A. Does the bank have SMEs among its clients?



B. What type of involvement do you have with SMEs?

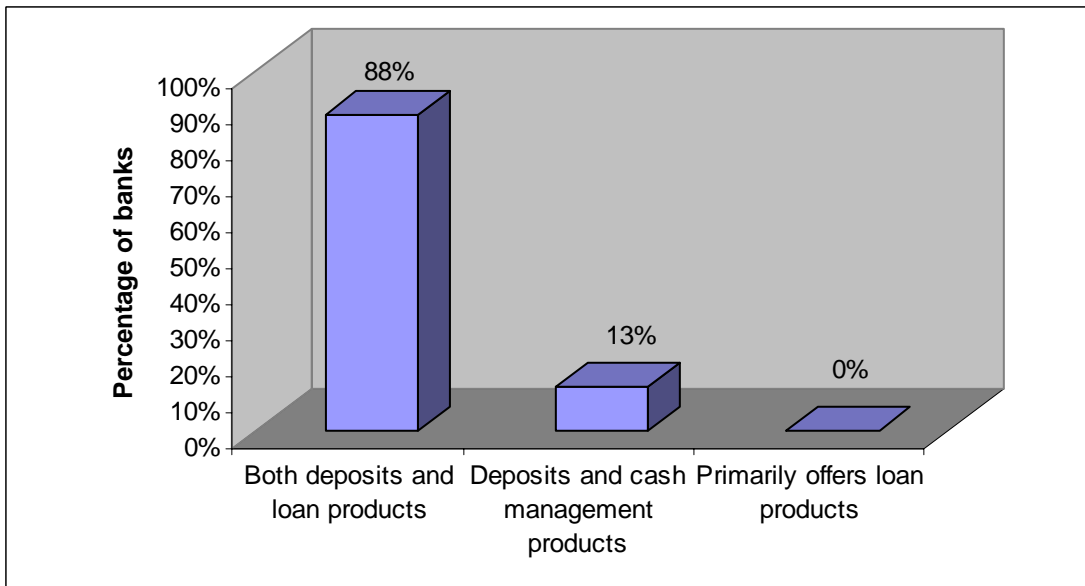
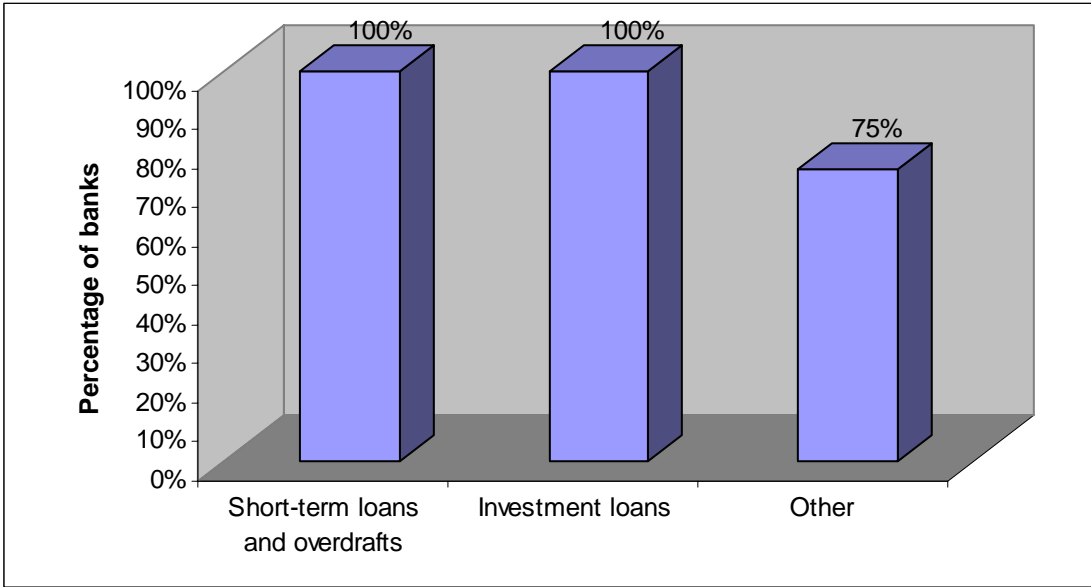


Figure 2  
Bank involvement with SMEs (II)



*Note: Other includes: Debt & Credit cards; Italian credit line; guarantees*

**Figure 3**

Bank exposure to SMEs (I)\

**Note: Data collected from banks (not from survey)**

- A. Financing to SMEs as a share of financing to the private sector
- B. Financing to SMEs as a share of financing to the private sector

**Figure 4**

Bank exposure to SMEs (II)

**Note: Data collected from banks (not from survey)**

- A. Financing to SMEs as a share of financing to the private sector
- B. Financing to SMEs as a share of financing to the private sector

**Figure 5**

SME contribution to banks' net income

**Note: Data collected from banks (not from survey)**

- A. Average SME contribution to total net income
- B. SME contribution to total net income

Figure 6  
Drivers of bank involvement with SMEs

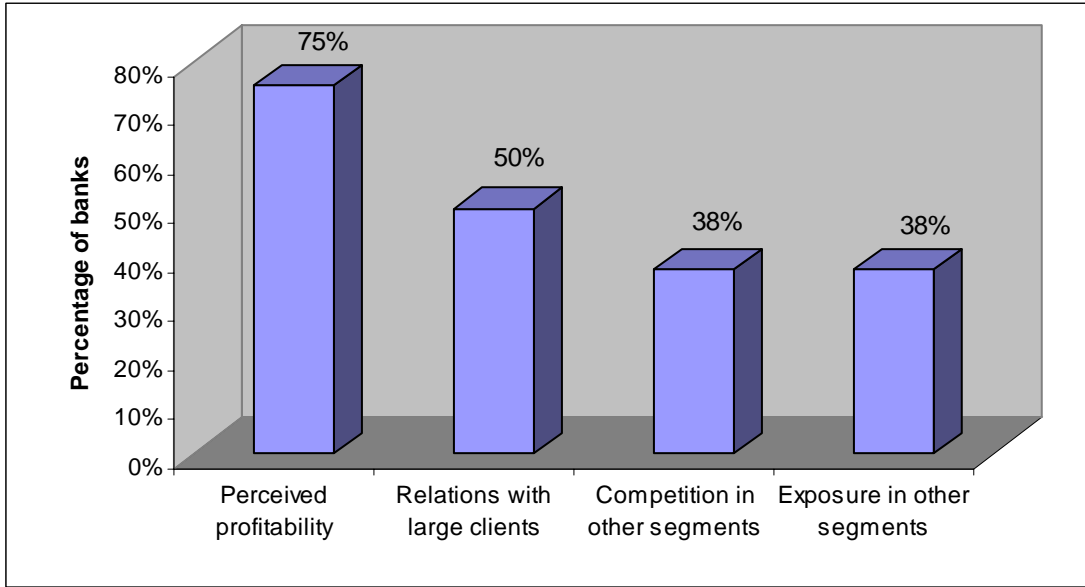


Figure 7  
Obstacles to bank involvement with SMEs

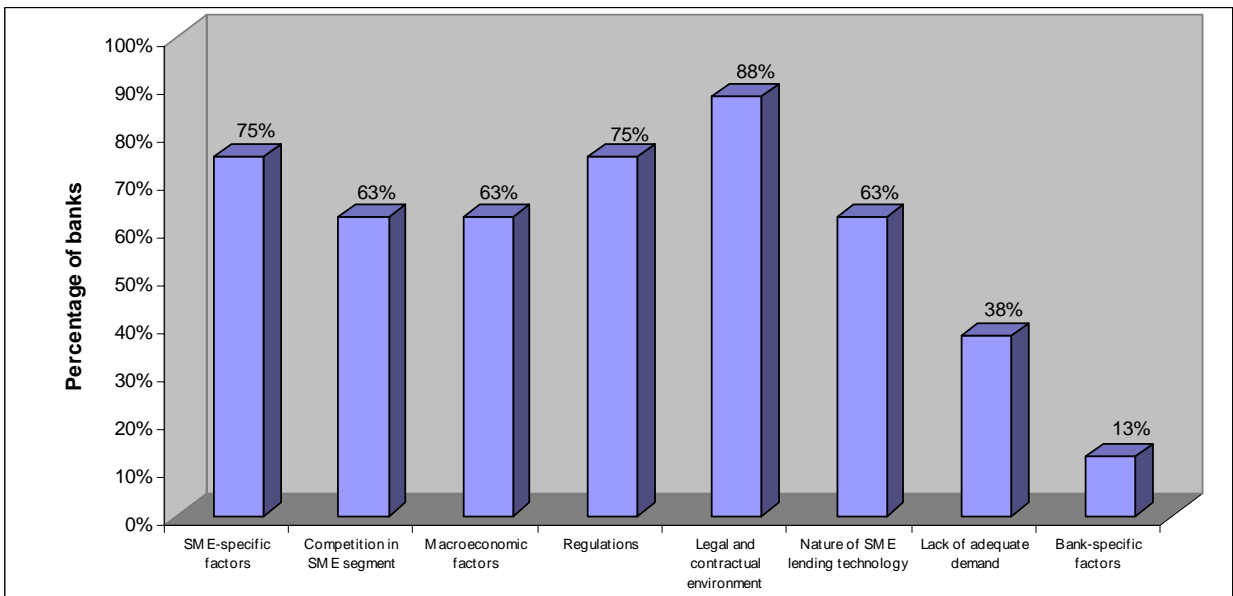
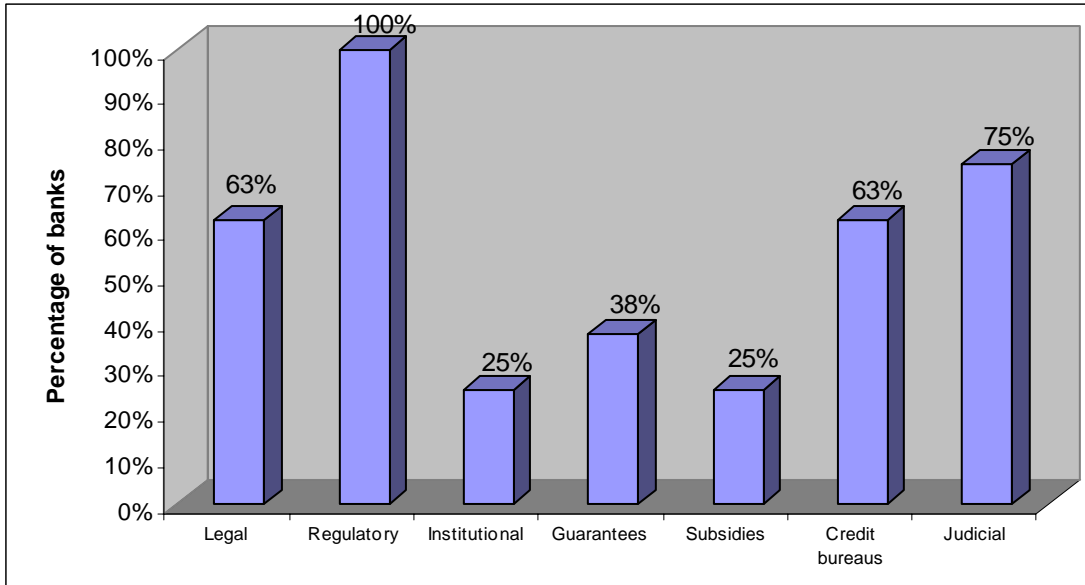


Figure 8  
Role of government

A. Areas in which government action could promote SME lending



B. Does the existence of a public credit bureau facilitate SME lending?

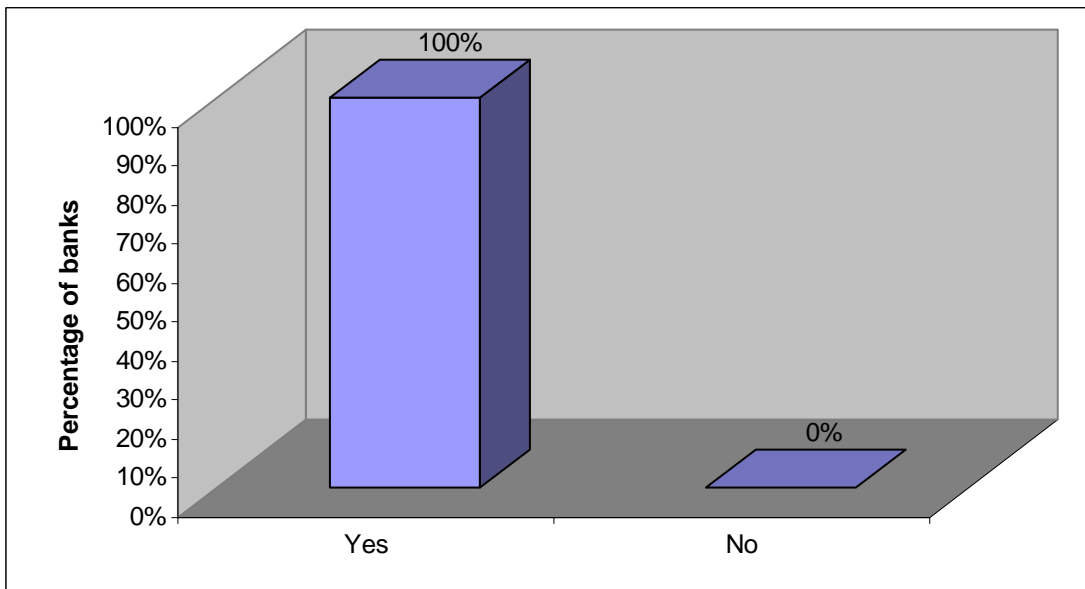


Figure 9  
Market environment (I)

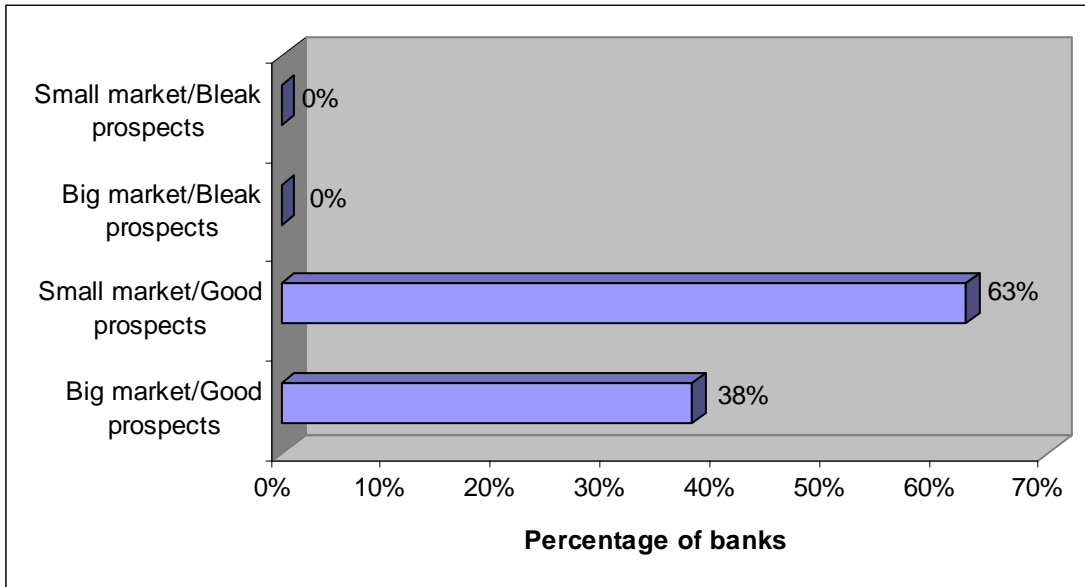


Figure 10  
Market environment (II)

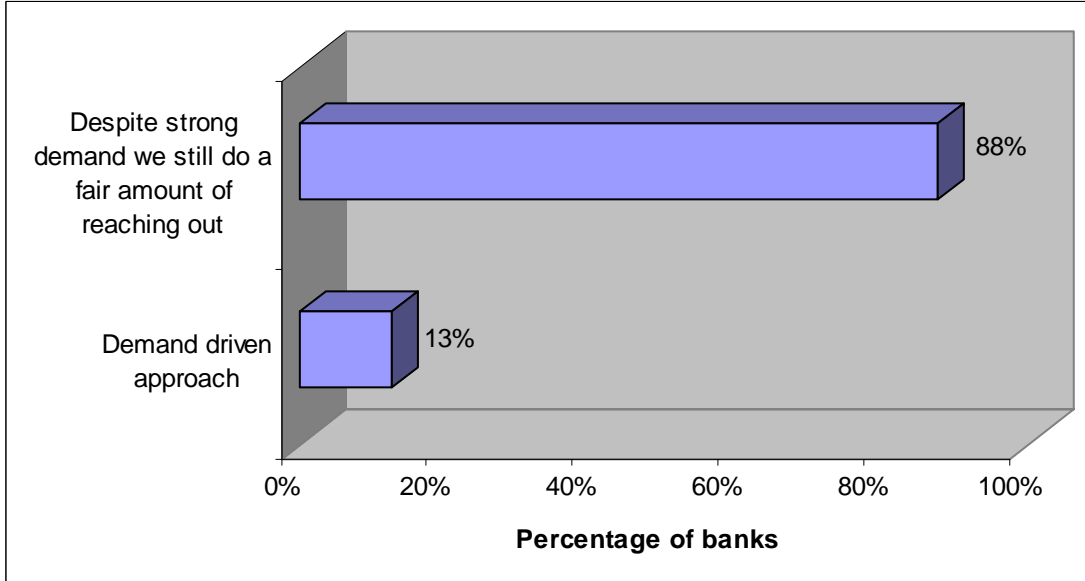


Figure 11  
Market environment (III)

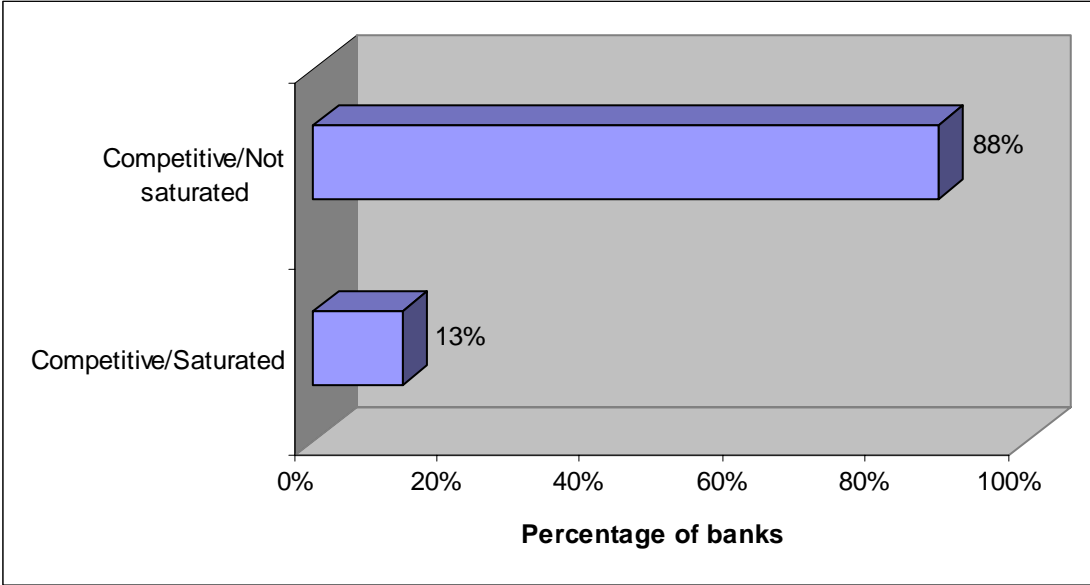
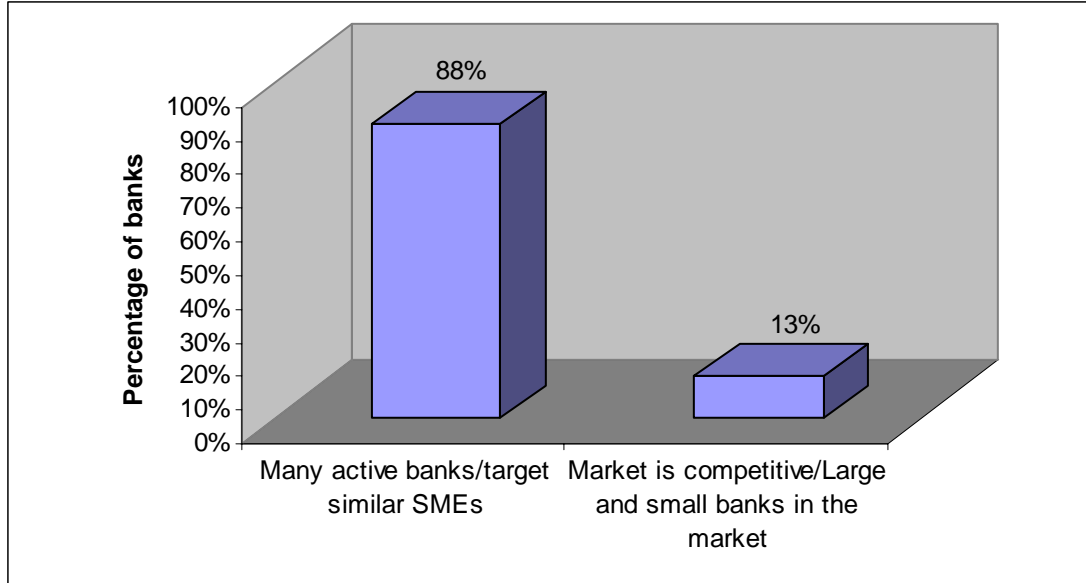


Figure 12  
Market structure

A. What is the market structure of the SME loan market?



B. Who are the main players in SME financing?

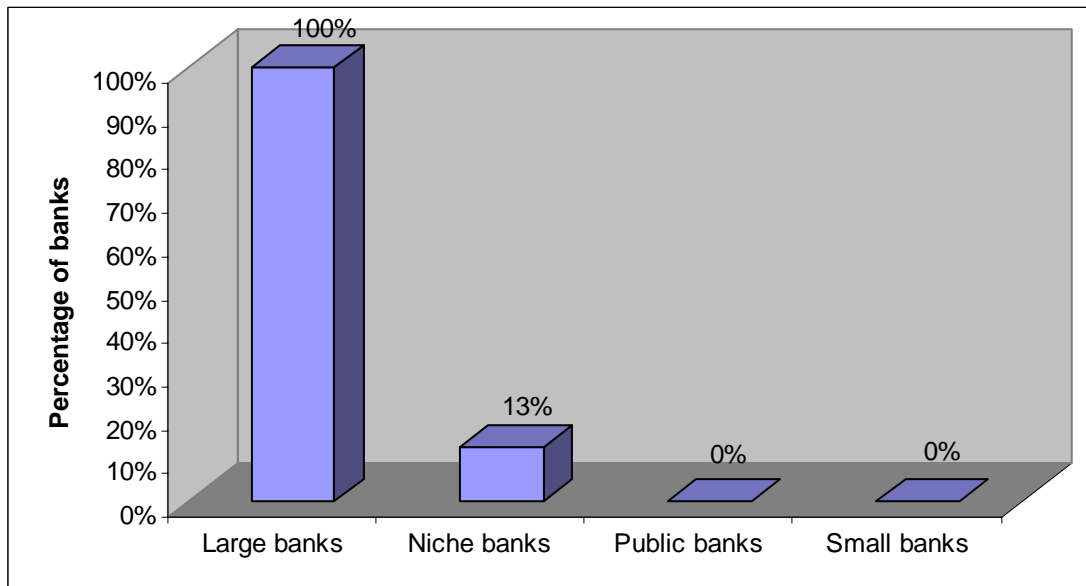
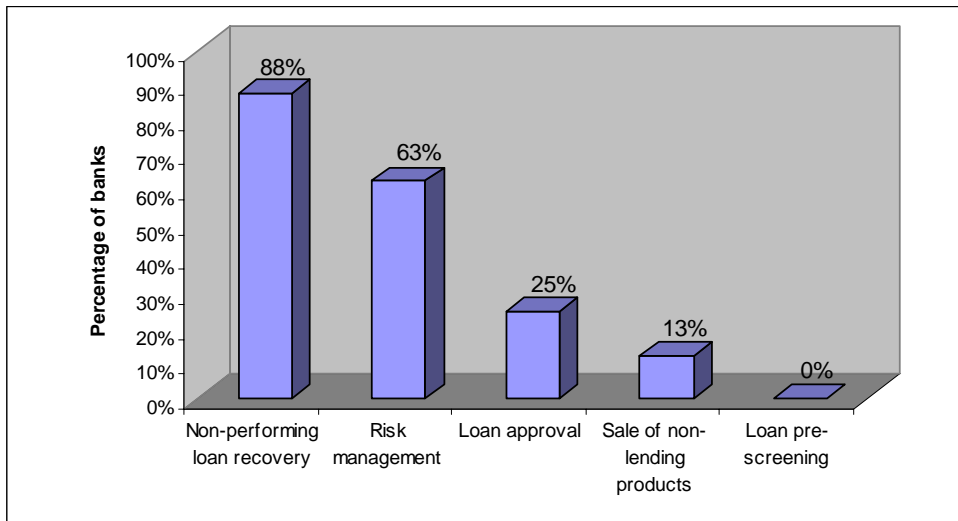


Figure 13  
Level of centralization of the SME business model (I)

**Note: Data collected from banks (not from survey)**

Figure 14  
Level of centralization of the SME business model (II)

A. What aspects of SME lending are centralized?



B. What aspects of SME lending are decentralized?

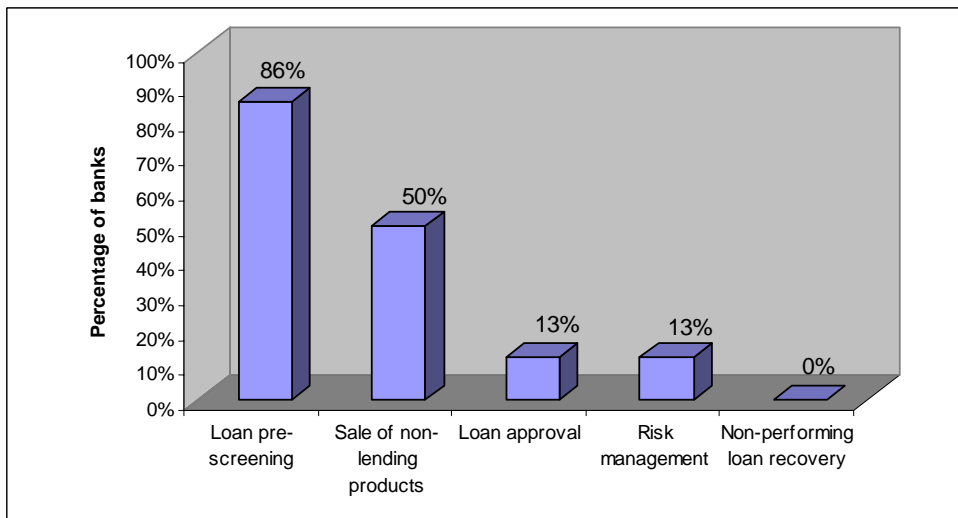
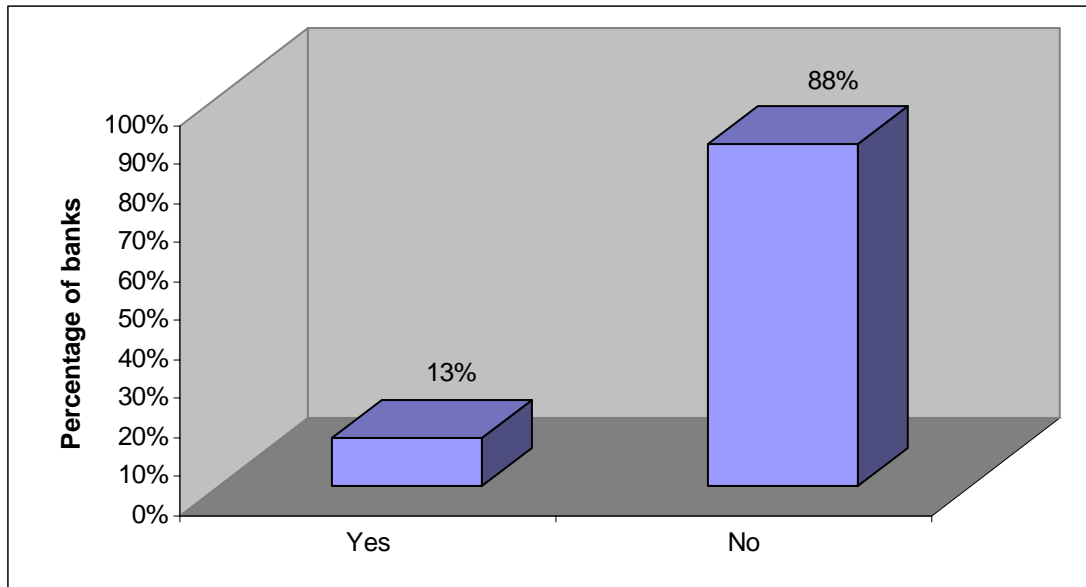


Figure 15  
Determining SME clients (I)

A. Does the bank have a sector specific focus in dealing with SMEs?



B. Does the bank have a specific geographic focus in dealing with SMEs?

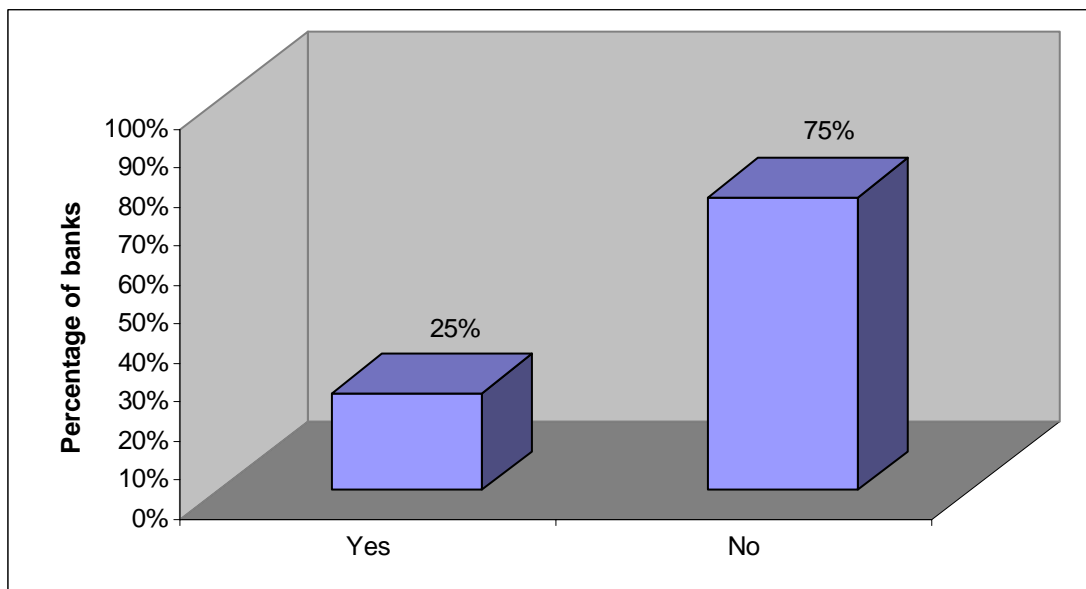
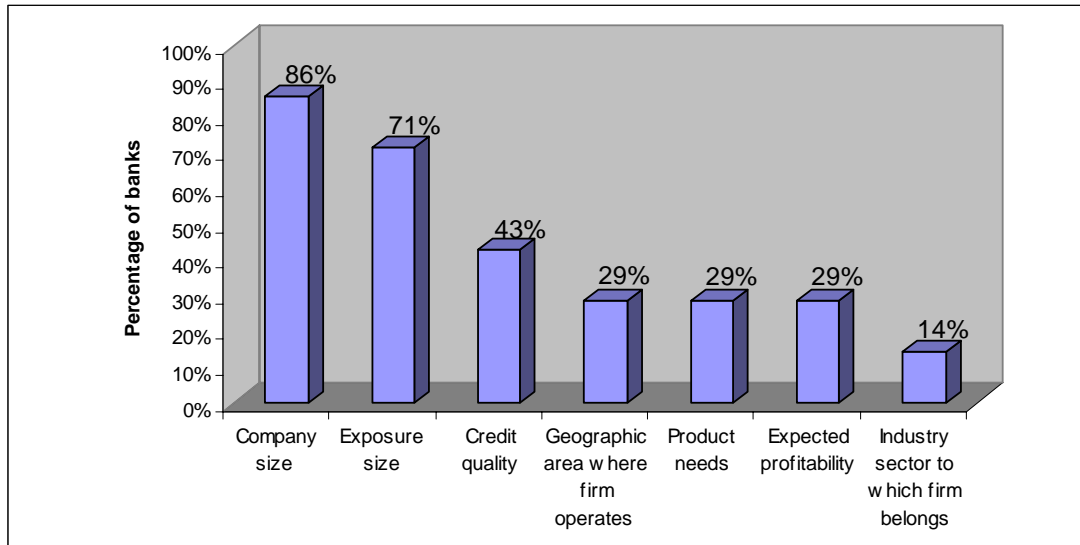


Figure 16  
Determining SME clients (II)

A. Criteria to determine the SMEs target market



B. Sources to identify potential SME clients

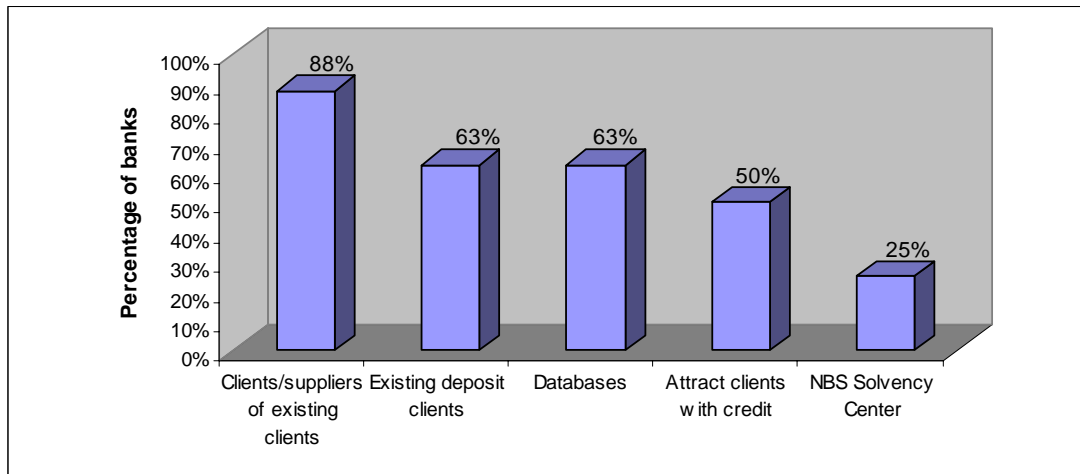


Figure 17  
Characteristics of SME lending

A. Are SMEs offered standardized or tailored products?

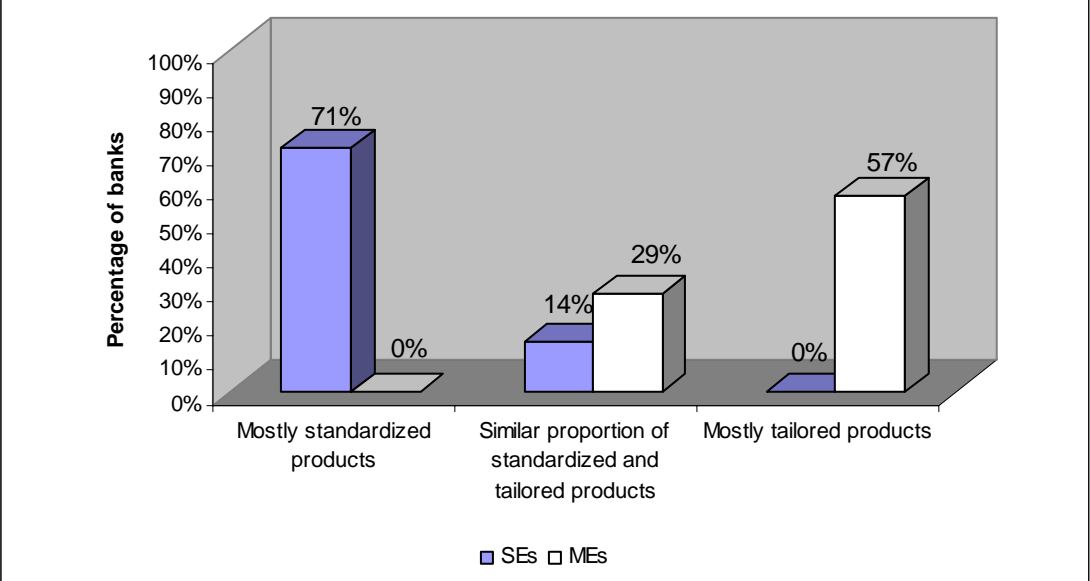
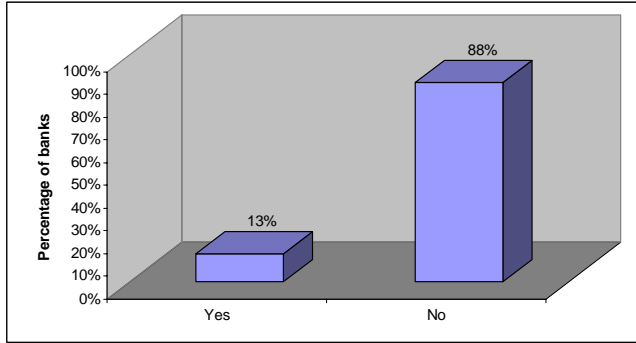
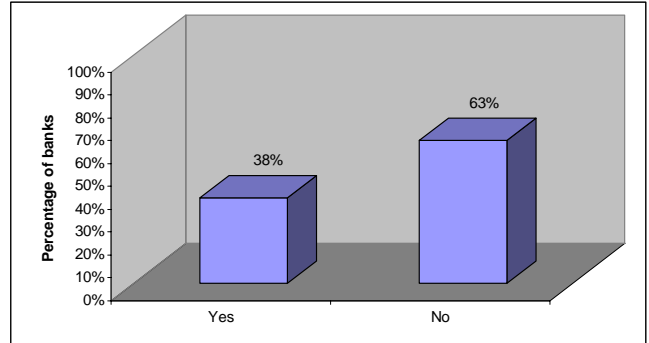


Figure 18  
Risk Management

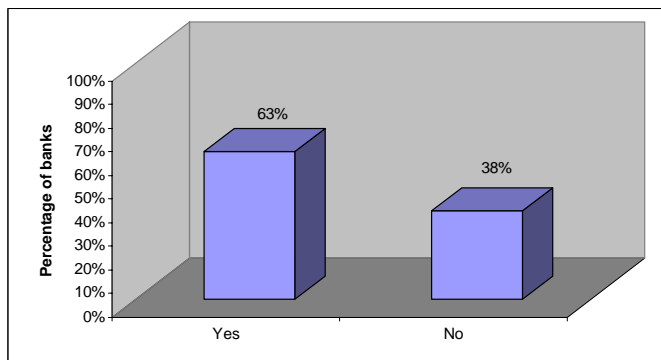
A. Is it largely automated?



B. Is it done by a credit risk analyst?



C. Is it separated from sales?



D. Is it done primarily at headquarters?

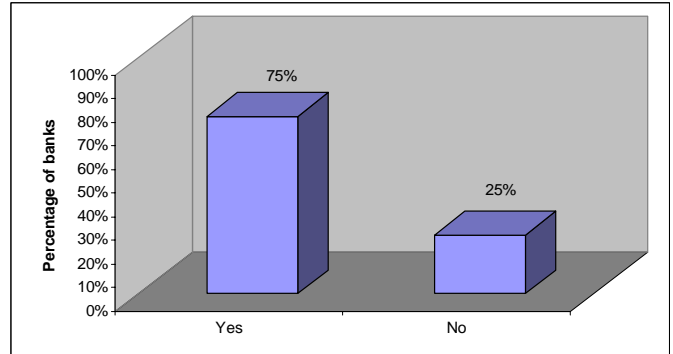
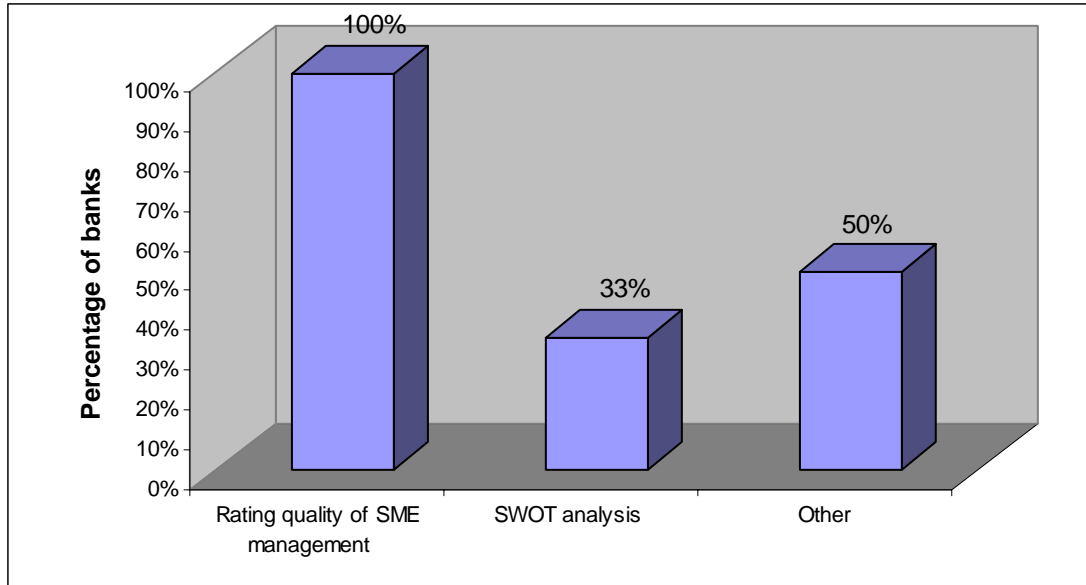


Figure 19  
Qualitative and quantitative risk assessments

A. Mention the types of analysis that your qualitative risk assessments include



B. Mention the types of analysis that your quantitative assessments include

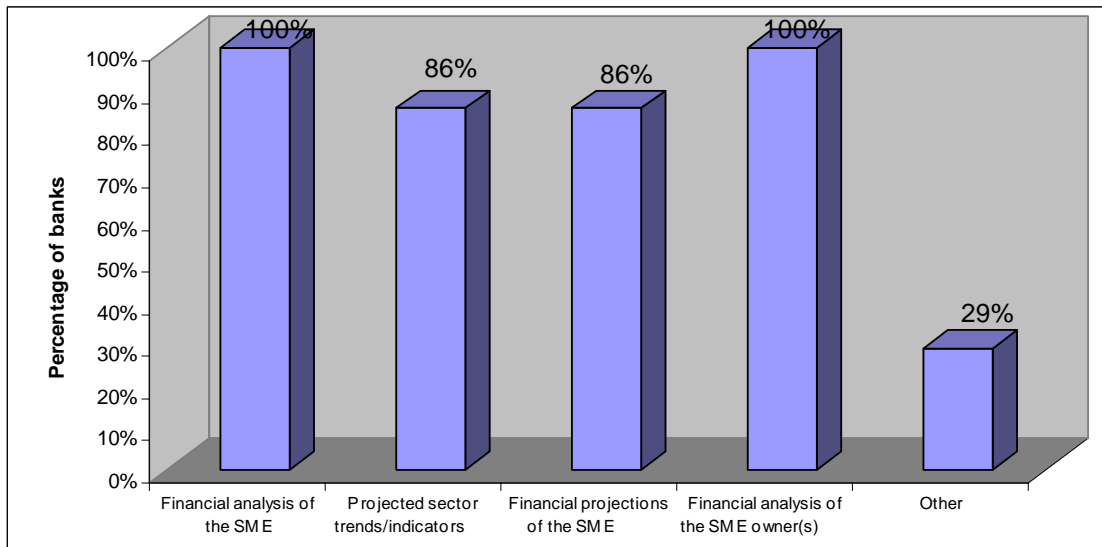
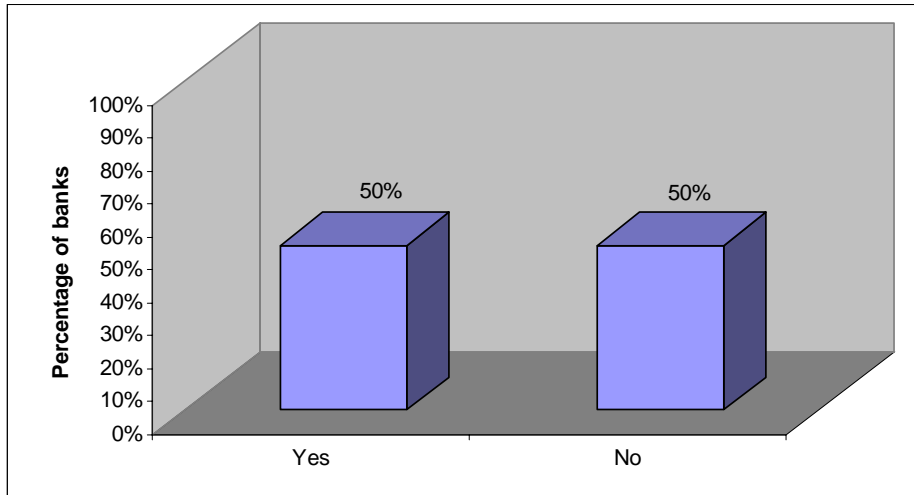


Figure 20  
Scoring models

A. Does your bank use scoring models to select SMEs?



B. What weight do you give to scoring in lending decisions?

**Not enough responses to prepare graph**

C. In your scoring model, do you score the owner, the SME or both?

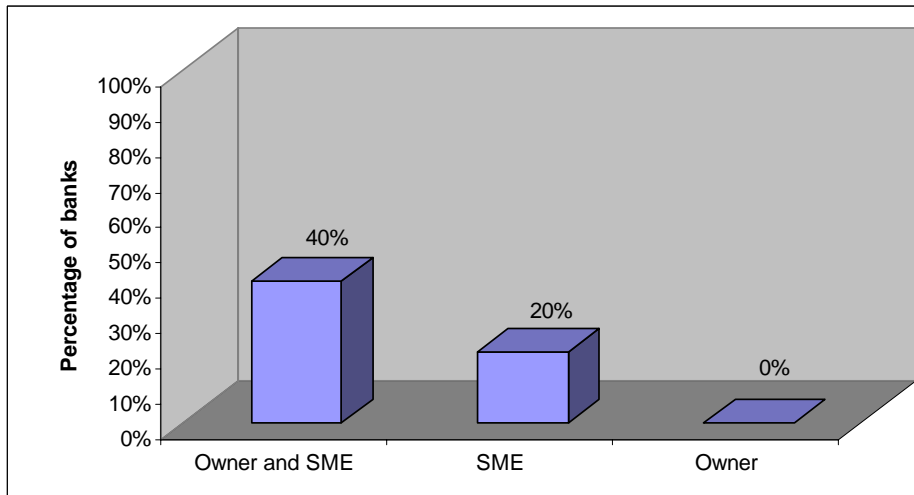
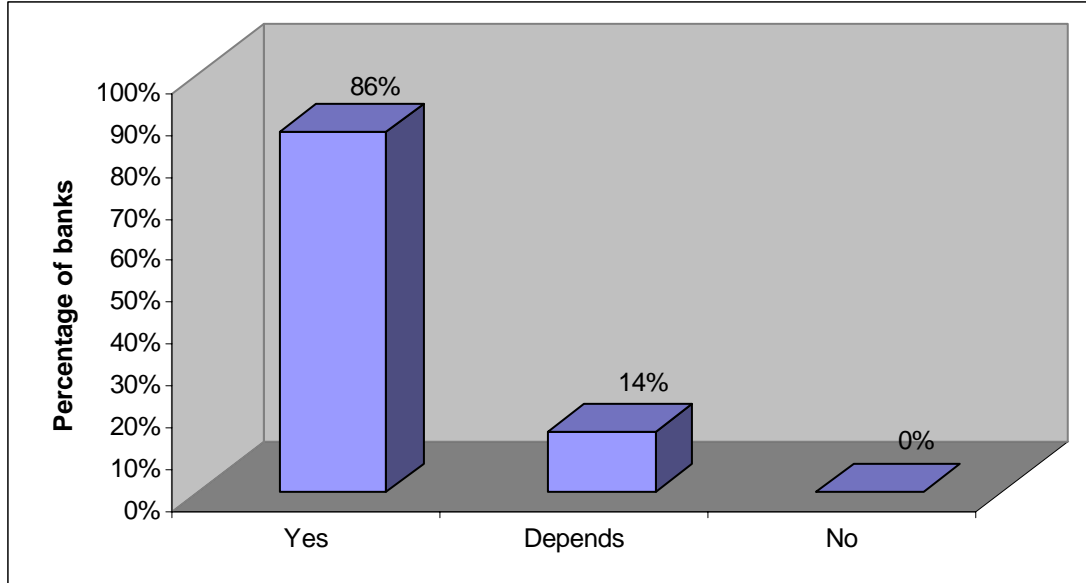


Figure 21  
Collateral requirements for SMEs

A. Does the SME borrower need to pledge collateral?



B. What characteristics of SMEs make collateral requirements relative to consumers?  
**All responses either N/A or Did not answer**

C. What characteristics of SMEs make collateral requirements higher relative to large corporations?  
**All responses either N/A or Did not answer**

Figure 22  
Credit limits

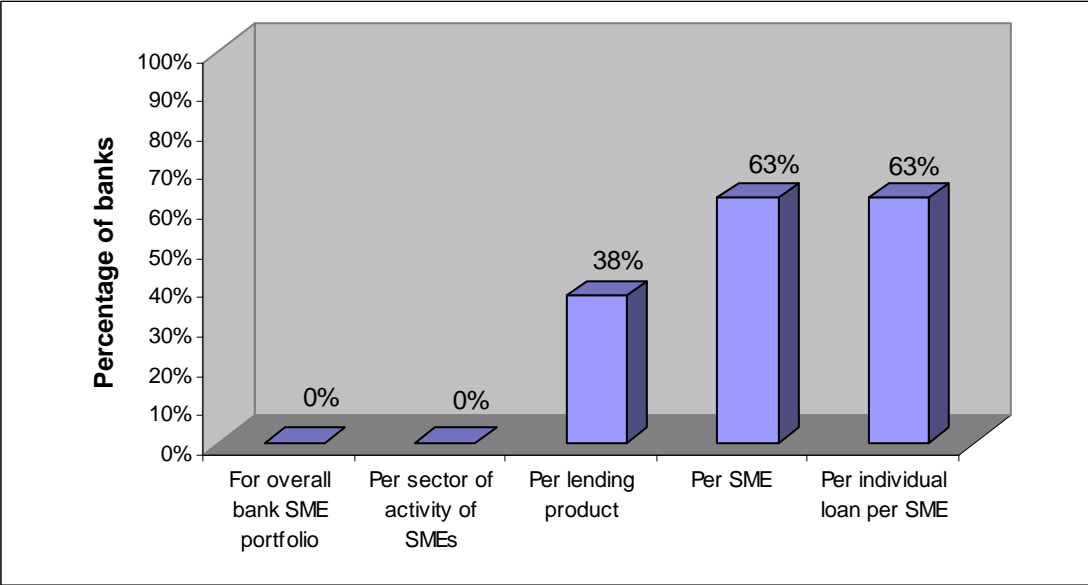
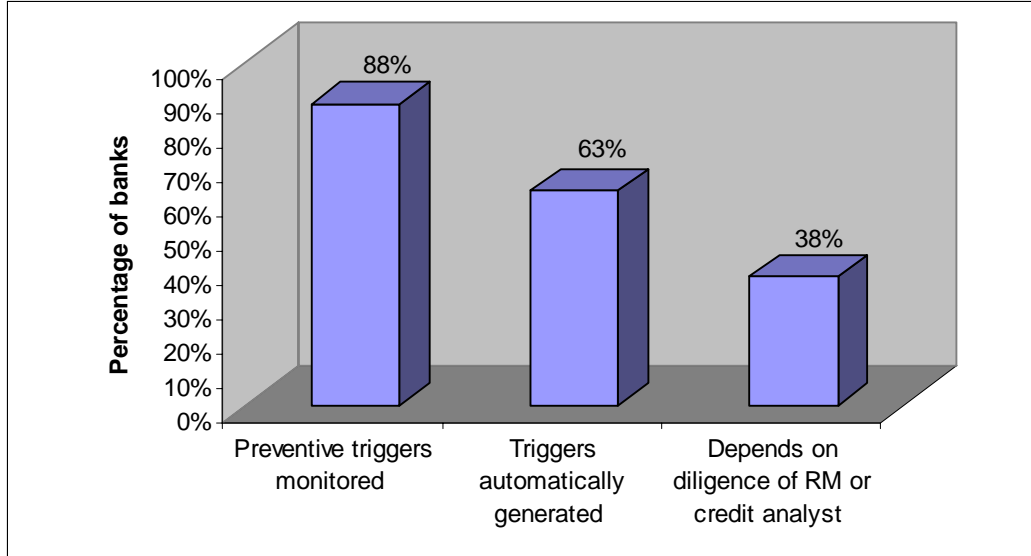
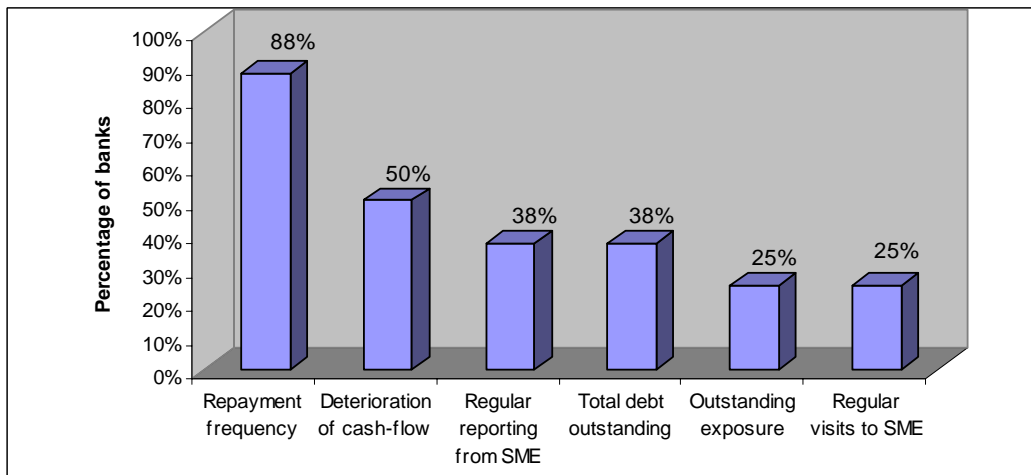


Figure 23  
Monitoring credit risk exposure

A. Describe how the bank monitors credit risk outlook for a particular SME

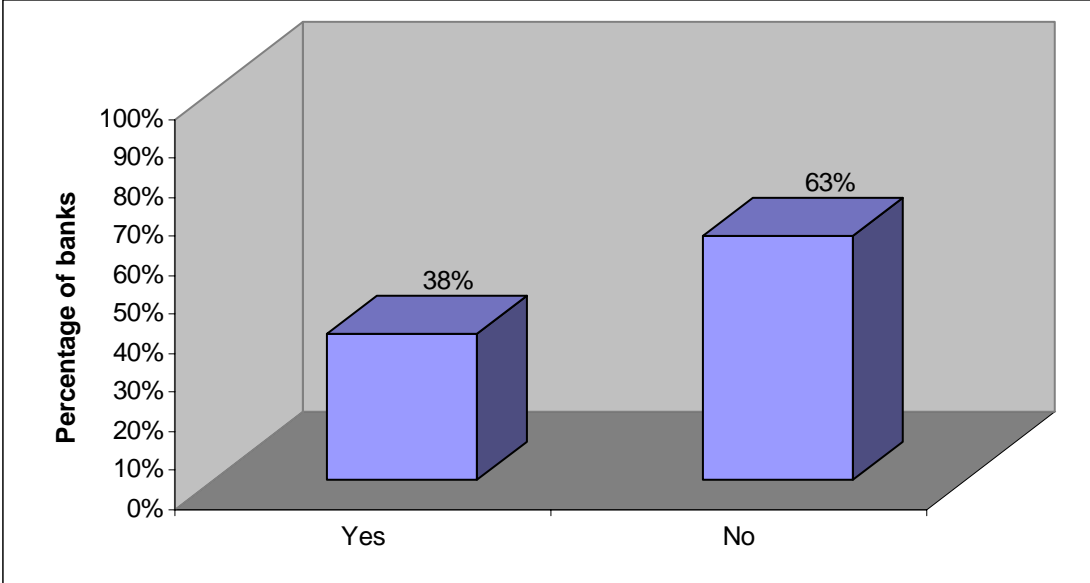


B. Which of the following items are monitored by the bank?



**Figure 24**  
Portfolio approach to credit exposure monitoring

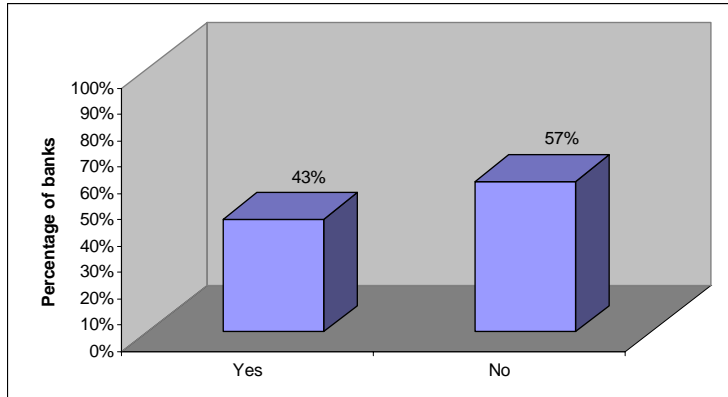
A. Does the bank manage the exposure to SMEs using a portfolio approach?



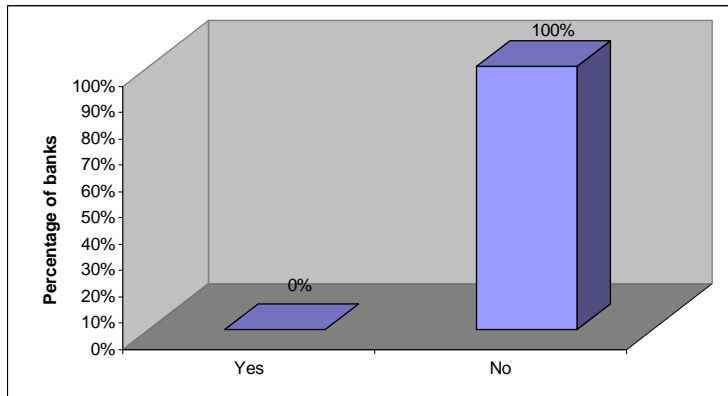
B. Describe the portfolio you use to monitor SME credit exposure  
**Majority of responses "Not applicable"**

**Figure 25**  
Management of non-performing loans (I)

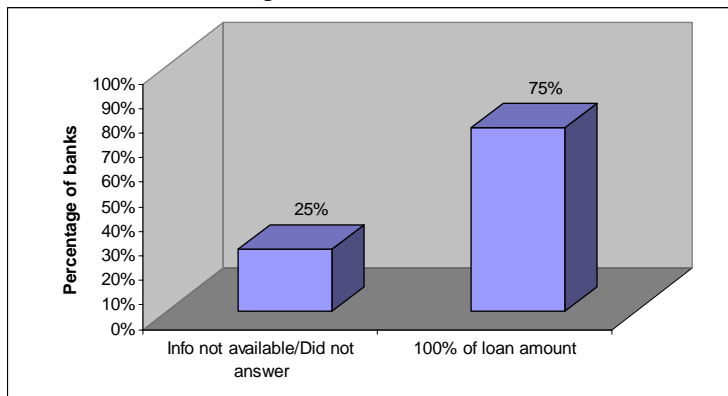
A. Do past losses feed into interest rates to cover expected losses?



B. Do past losses feed into capital requirements?

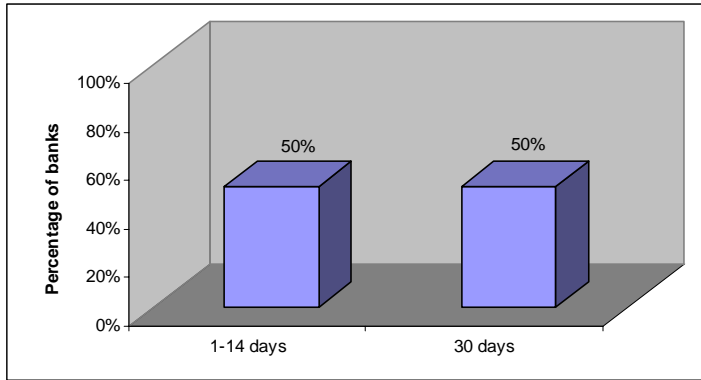


C. What is the average share of SME loans recovered?

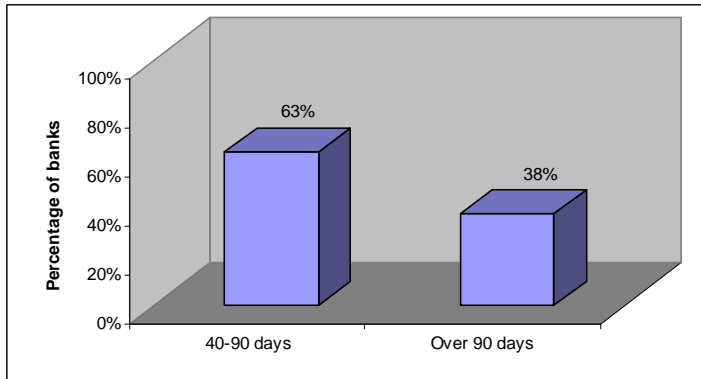


**Figure 26**  
Management of non-performing loans (II)

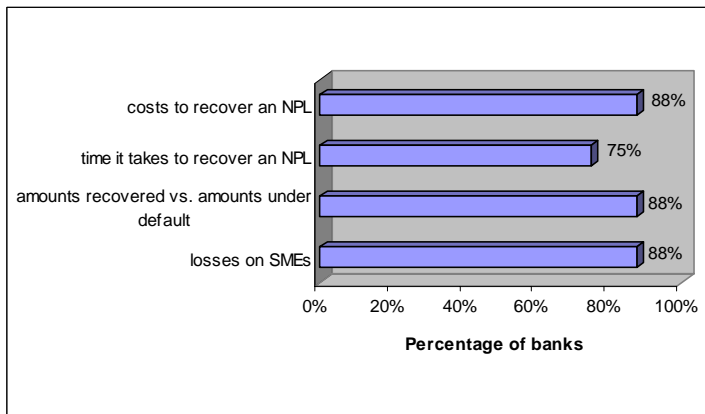
A. After how many days is a non-serviced SME loan considered overdue?



B. After how many days is a non-serviced SME loan moved to non-accrual?

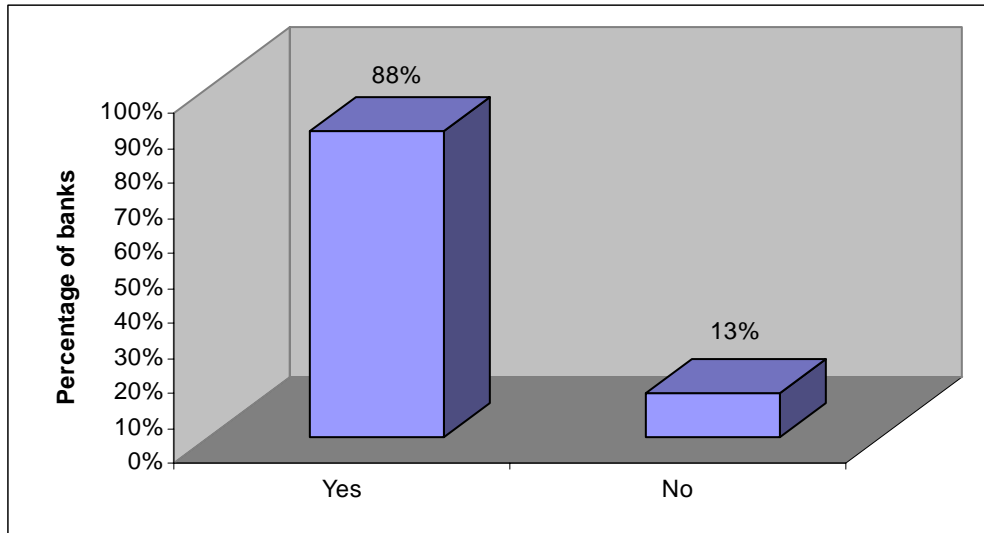


C. Percentage of banks that keep track of...

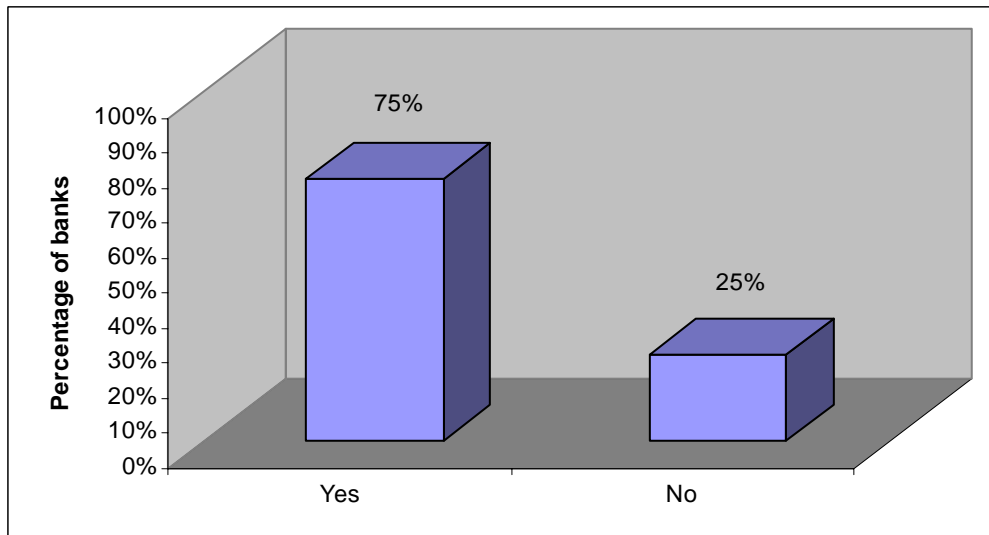


**Appendix Figure 1: Banks' involvement with SMEs (I)**

A. Does the bank have a separate unit managing the banking relation with SMEs?



B. Does the bank have a well-defined process to determine the SME target market and sectors?



**Appendix Figure 2**

Banks' involvement with SMEs (II)

A. SME loans over total bank loans

**Note: data not from survey**

B. SME deposits over total bank deposits

**Note: data not from survey**

**Appendix Figure 3**

Banks' involvement with SMEs (III)

A. SME financial income over total bank financial income

**Note: data not from survey**

B. SME services income over total bank services income

**Note: data not from survey**

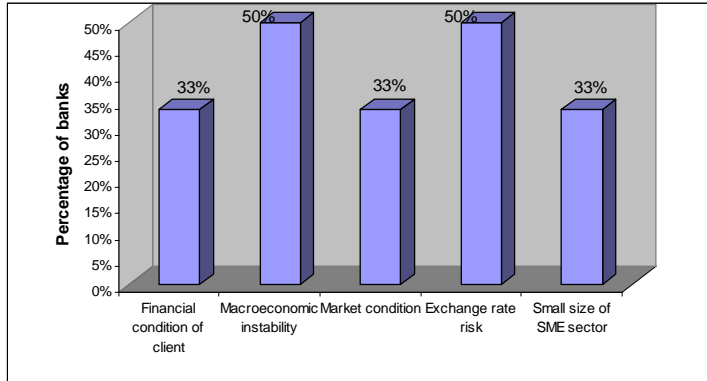
**Appendix Figure 4**

Bank involvement with SMEs (IV)

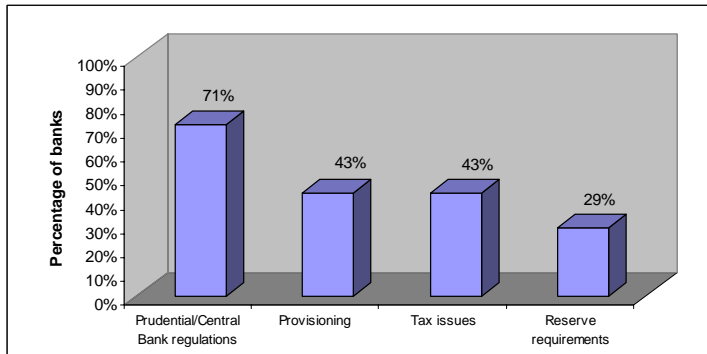
Note: Data collected from banks (not from survey)

**Appendix Figure 5**  
Obstacles to bank involvement with SMEs (I)

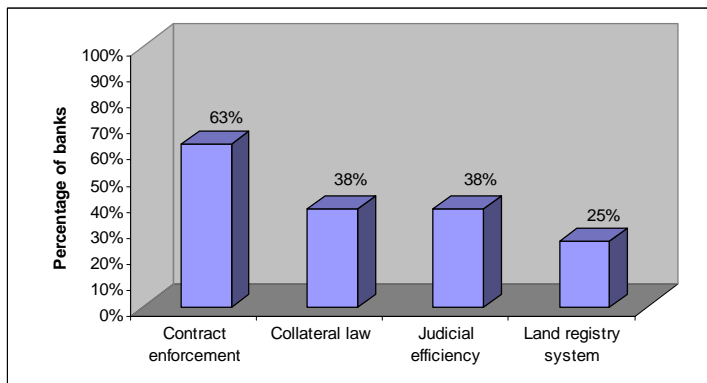
A. Macroeconomic aspects mentioned as obstacles to bank involvement with SMEs



B. Regulatory aspects mentioned as obstacles to bank involvement with SMEs



C. Aspects from the legal and contractual environment mentioned as obstacles to bank involvement with SMEs



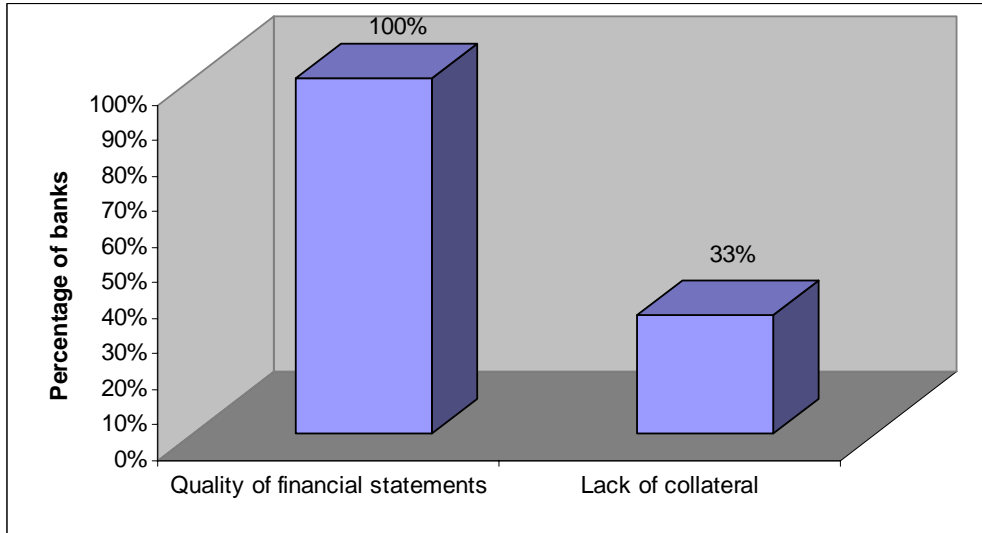
**Appendix Figure 6**

**Obstacles to bank involvement with SMEs (II)**

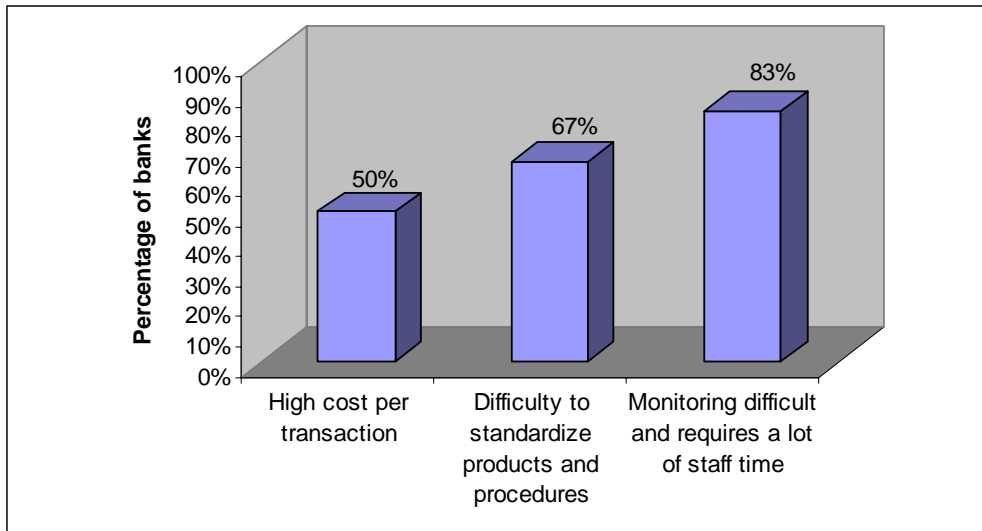
**A. Bank-specific factors**

**Majority of responses "N/A"**

**B. SME-specific aspects mentioned as obstacles to bank involvement with SMEs**

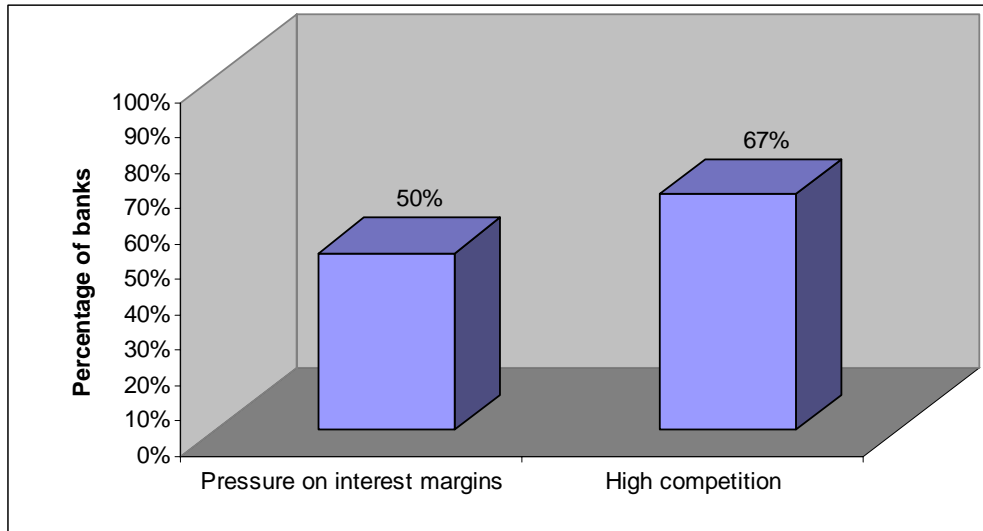


**C. Aspects of the lending technology to SMEs mentioned as obstacles to bank involvement with SMEs**



**Appendix Figure 7**  
Obstacles to bank involvement with SMEs (III)

A. Aspects related to the competition mentioned as obstacles to bank involvement with SMEs

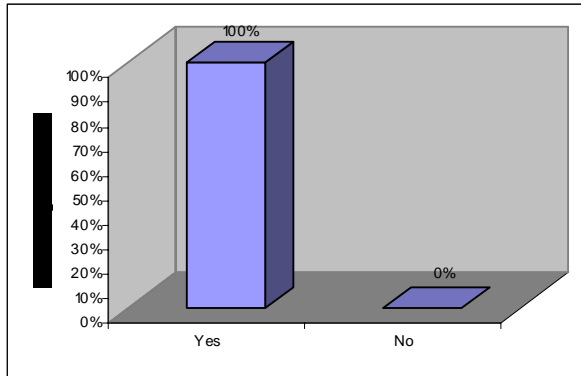


B. Aspects related to demand mentioned as obstacles to bank involvement with SMEs

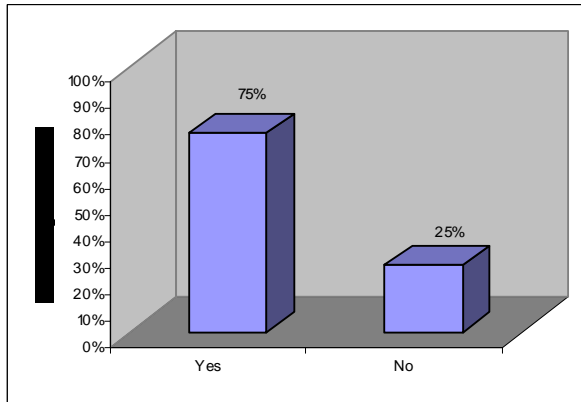
**Note: Majority of responses "Did not answer"**

### Appendix Figure 8

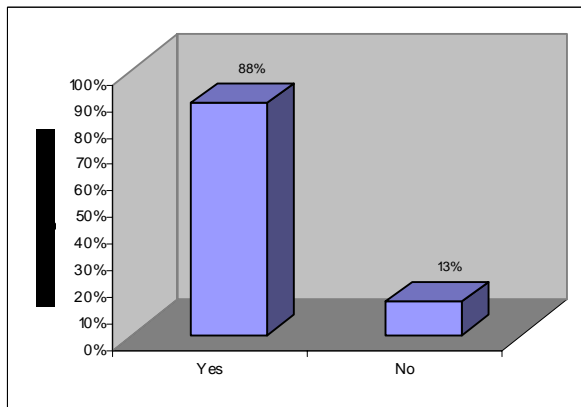
A. Have there been significant changes over time in bank SME lending in terms of competition, consolidation, and entry?



B. Do you lend to SMEs after seeing other banks do so?



C. Is there a first mover's advantage



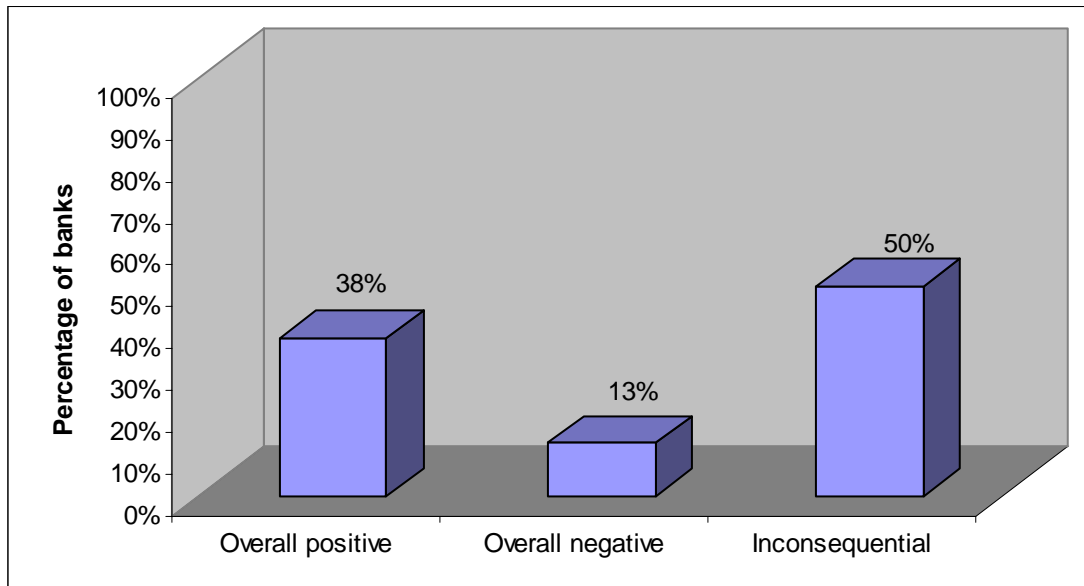
D. Qualify the impact of public banks on your appetite for SME lending  
**No responses to this question**

### Appendix Figure 9

A. Government programs that generate additionality

**Note: Majority of responses were "Did not use program" or "Did not answer"**

B. Qualify the effects of government programs on your involvement with SMEs

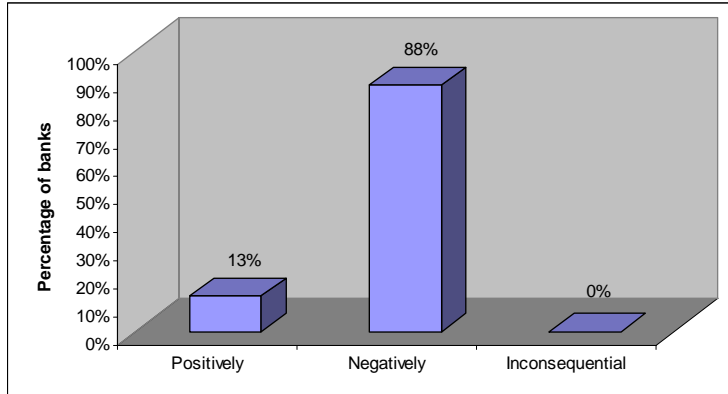


C. Do you lend to SMEs based on local credit enhancement program?

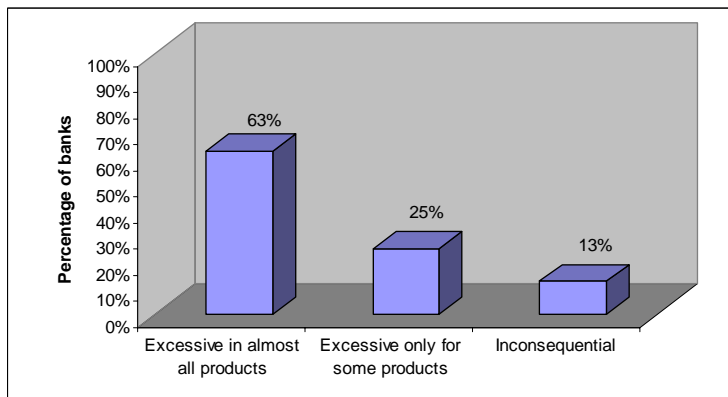
**Note: 7 out of 8 replied "not significant or marginally significant".**

**Appendix Figure 10**  
Regulations (I)

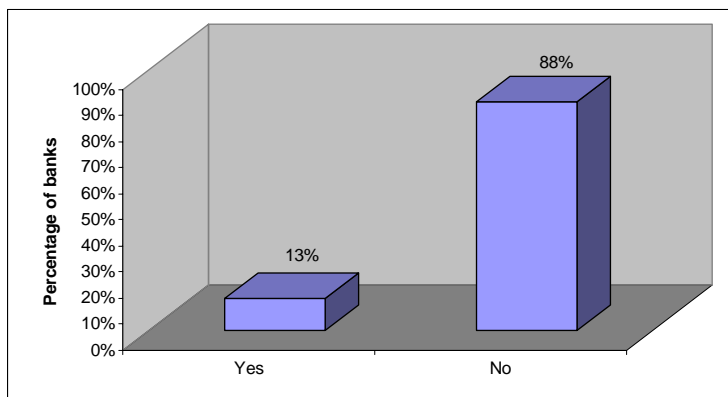
A. How does prudential regulation affect your involvement with SMEs?



B. Give your impression on the burden posed by regulatory requirements on commercial lending to SMEs



C. Are there differences in the required documentation for commercial lending based on the size of loan?

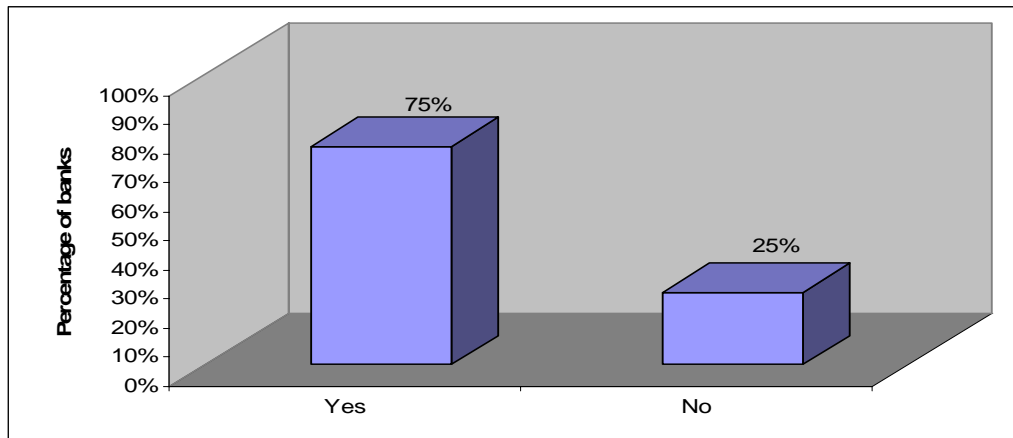


**Appendix Figure 11**  
Regulations (II)

A. Does the regulatory definition of secured loans (in terms of collateral) inhibit SME lending?

**Note: Majority were not asked or answered "N/A"**

B. Are there regulatory issues in registering collateral that inhibit SME secured lending?

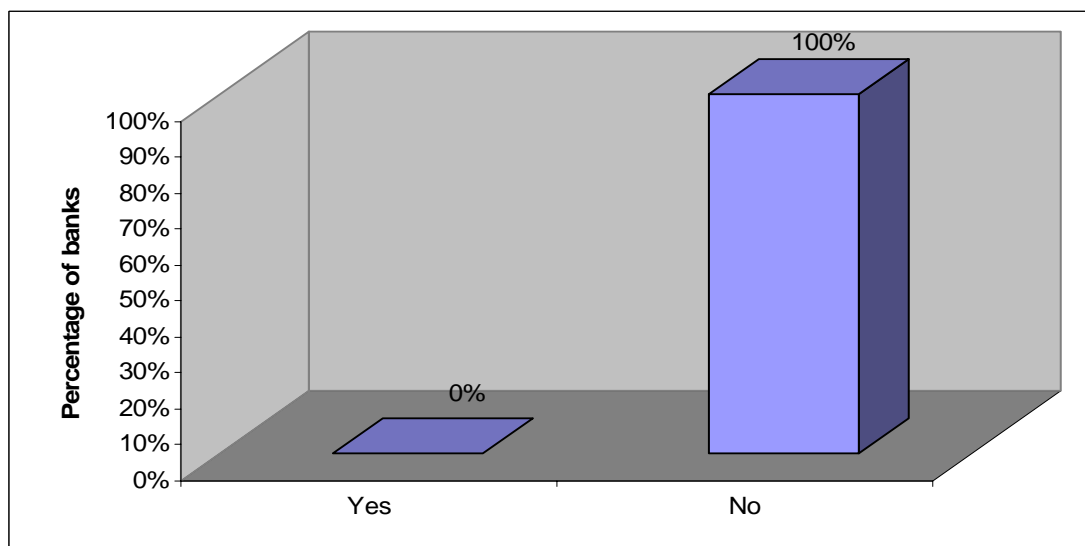


**Appendix Figure 12**  
Regulations (III)

A. Do maximum lending rates, if any, have an impact on your appetite for SME lending?

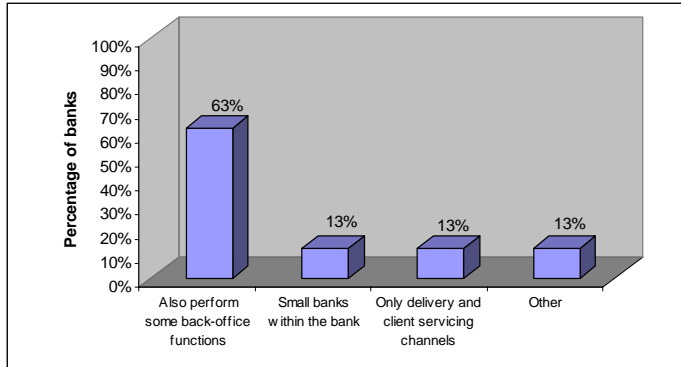
**Note: all responses were "N/A" or "Were not asked"**

B. Do any tax related issues affect your appetite for SME lending?

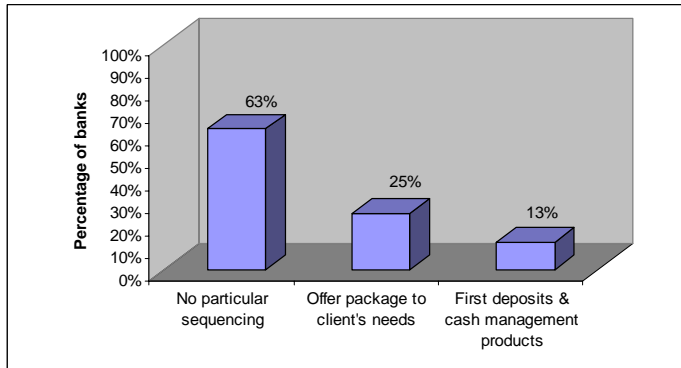


### Appendix Figure 13 Business Model (I)

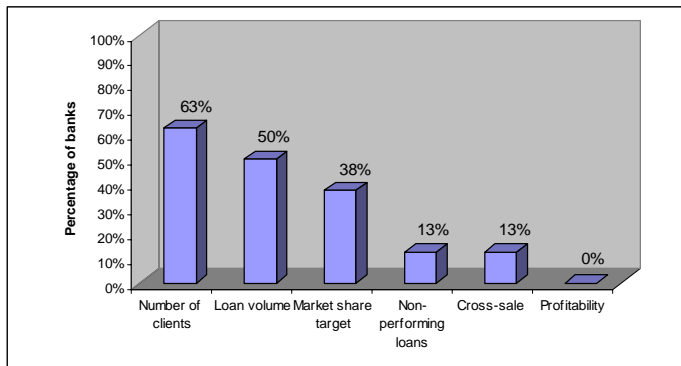
#### A. What is the role of the branches?



#### B. In targeting new clients, is there a specific sequencing in how you offer products?

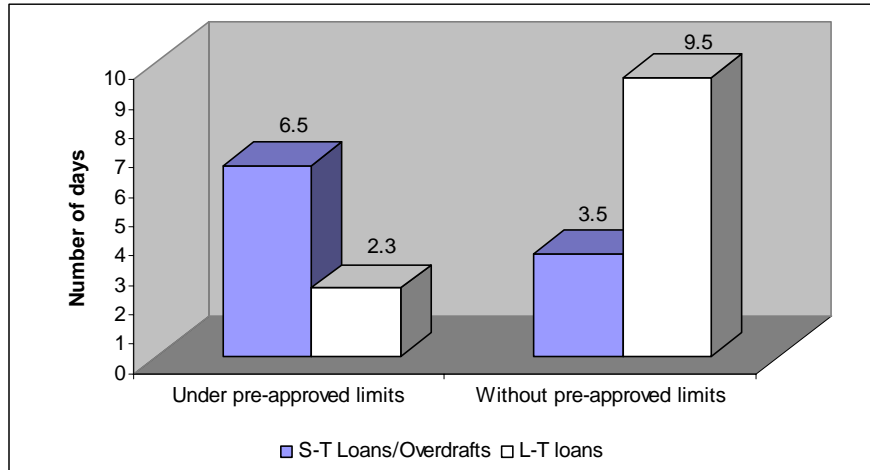


#### C. Criteria to grant incentives to SME sales personnel

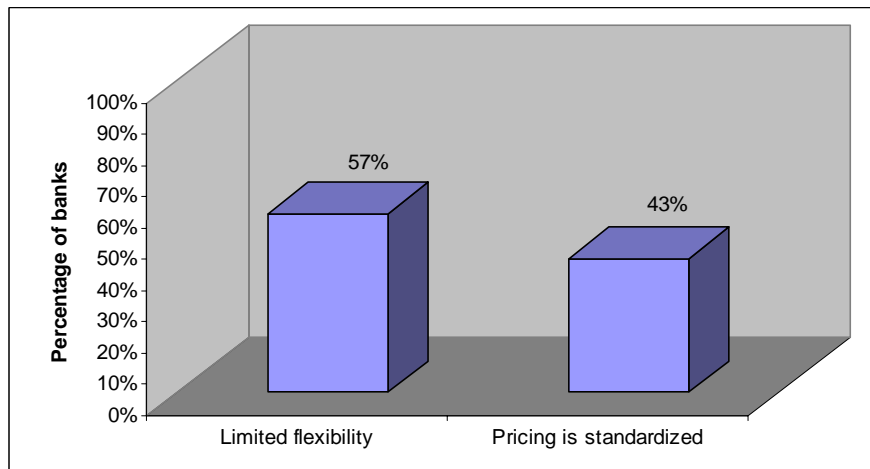


**Appendix Figure 14**  
Business model (II)

A. Average number of days to process a disbursement of main products



B. Which statement is more relevant for your bank when it comes to product pricing?



**Appendix Figure 15**  
Business Model (III)

A. Are collateral requirements higher for SMEs than for large corporates?  
**Note: All responses either "N/A" or "Did not answer"**

B. Are collateral requirements higher for SMEs than for consumers?  
**Note: All responses either "N/A" or "Did not answer"**

**Appendix Figure 16**  
Risk Management (I)

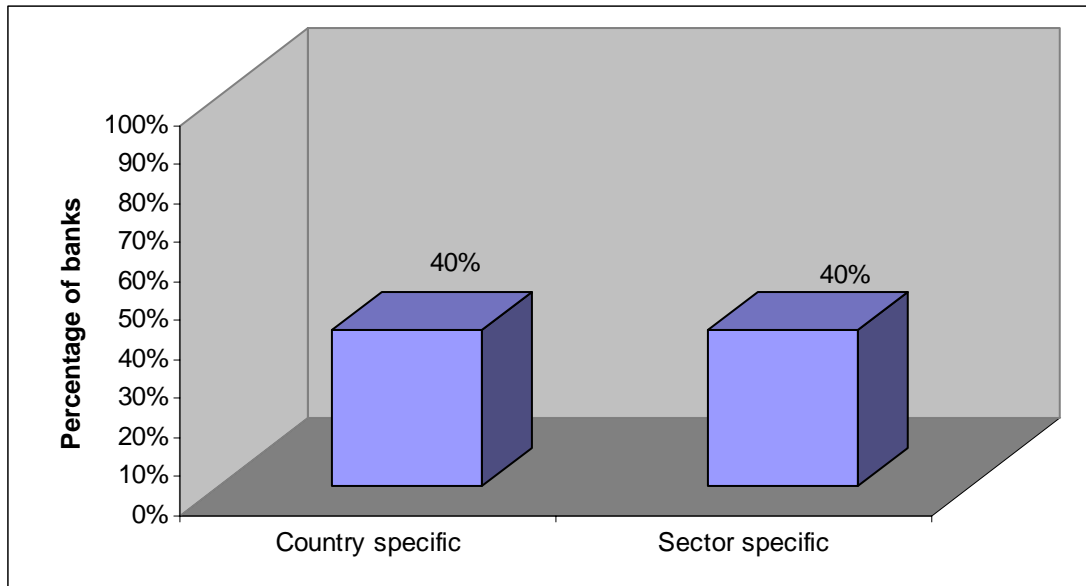
**Note: "Data collected from banks" (not from survey)**

**Appendix Figure 17**  
Risk management (II)

A. If your bank does not use scoring models, is this a bank decision or is this decision affected by regulation?

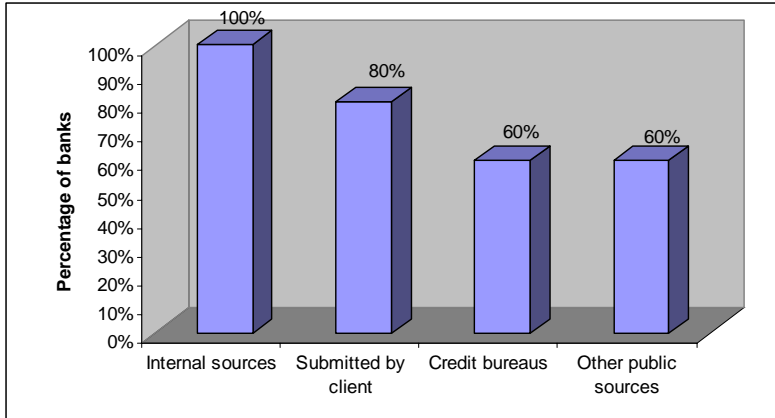
**Note: Majority replied "Did not answer" or "N/A"**

B. Is your scoring model country and/or sector specific?

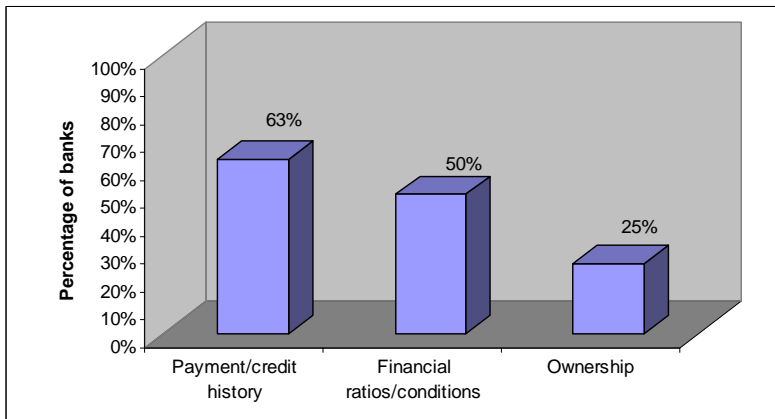


### Appendix Figure 18 Risk Management (III)

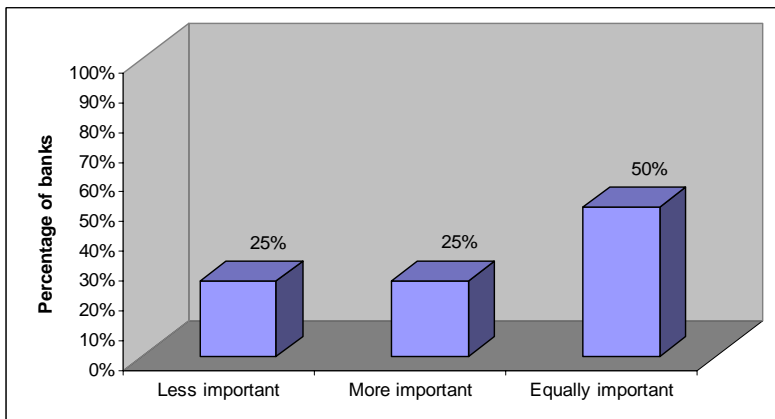
A. From where do you collect the variables for your scoring models?



B. List the main variables used in scoring models



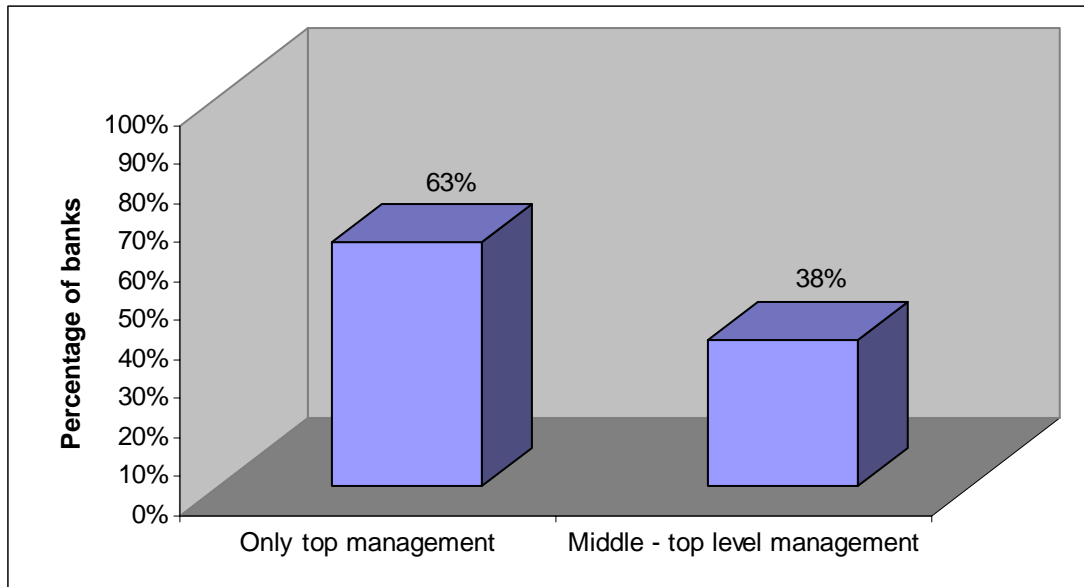
C. In scoring models, how important is information about the SME compared to information about SME owner?



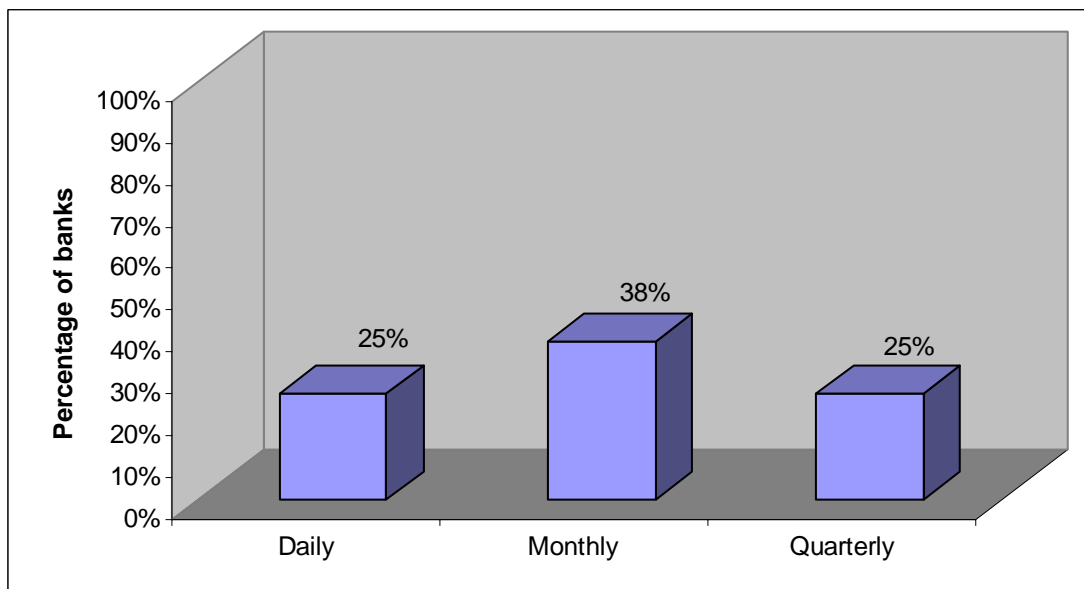
**Appendix Figure 19**

Monitoring and credit exposure analysis (I)

A. Who has the authority to change credit limits?



B. How often are exposures relative to limits monitored?



C. Can excesses in credit limits occur?

**Note: no responses received for this question**

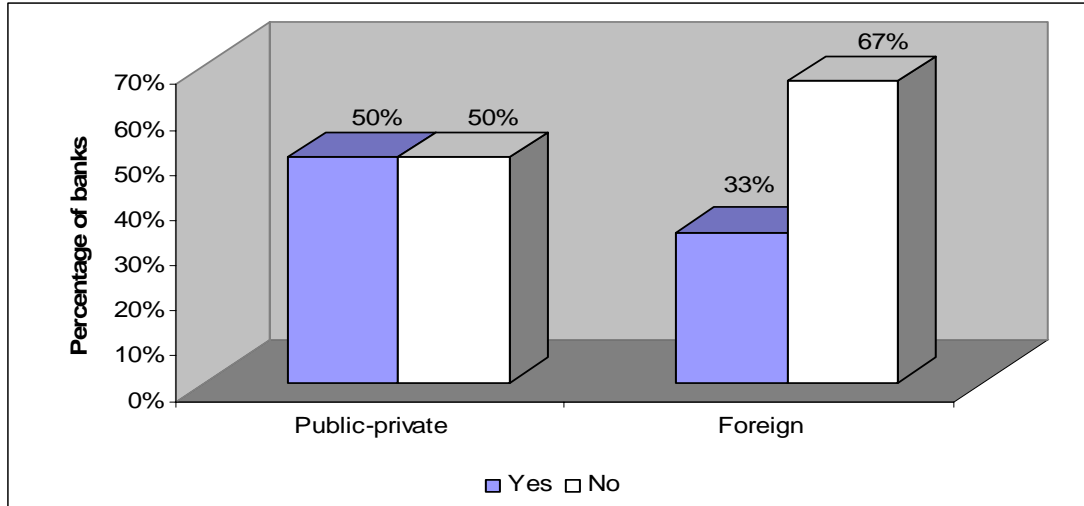
**Appendix Figure 20**

Monitoring and credit exposure analysis (II)

A. Is the case reviewed if excesses in credit limit occur?

**Note: no responses received for this question**

B. Does the bank manage the exposure to SMEs using a portfolio approach?



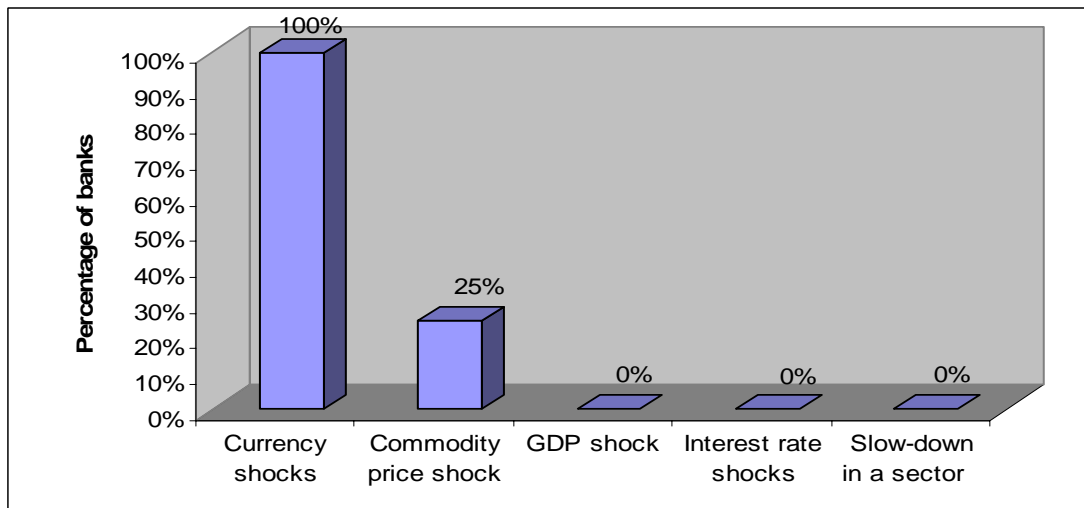
**Appendix Figure 21**

Monitoring and credit exposure analysis (III)

A. Does your bank seek portfolio diversification through any of the following?

**Note: Majority were "N/A" or "Did not respond"**

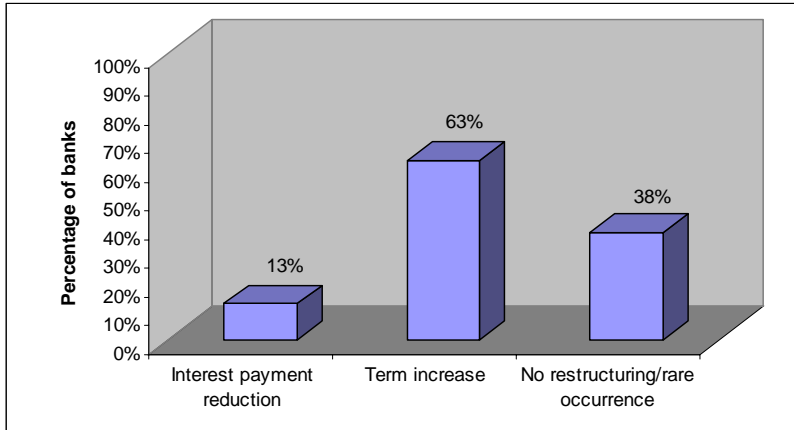
B. Do you run any of the below mentioned stress-test exercises on the SME portfolio?



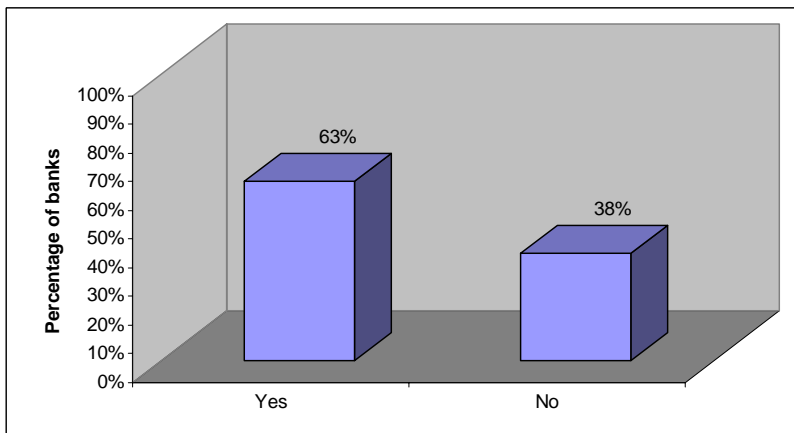
**Appendix Figure 22**

Management of the non-performing loans portfolio (I)

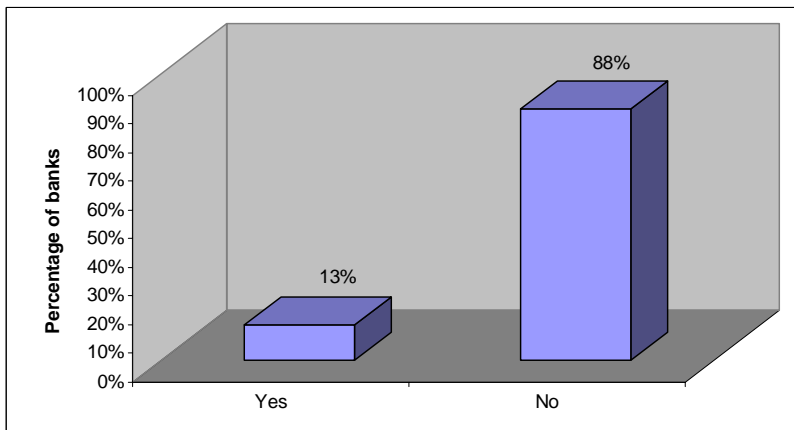
A. What is the policy for restructuring SME loans?



B. Do you have a dedicated SME loan recovery unit?



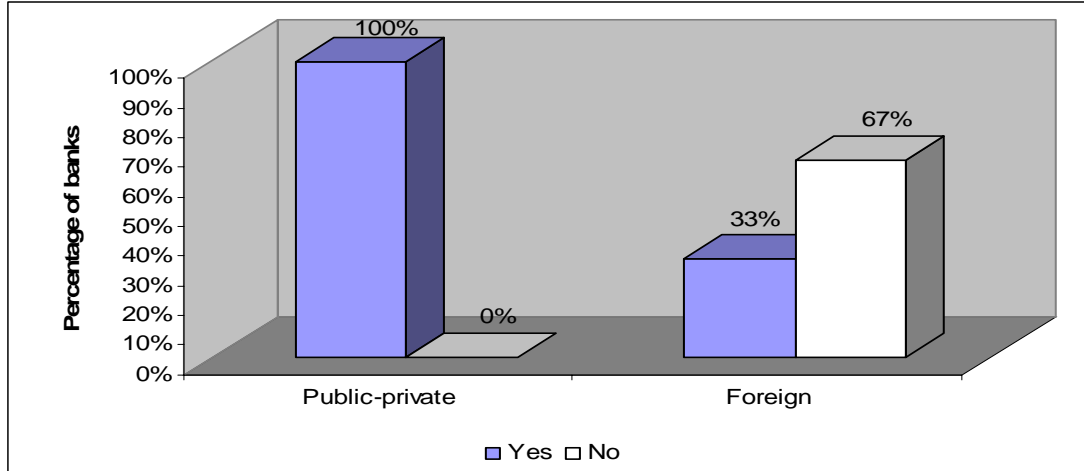
C. Do you outsource the SME loan recovery operation?



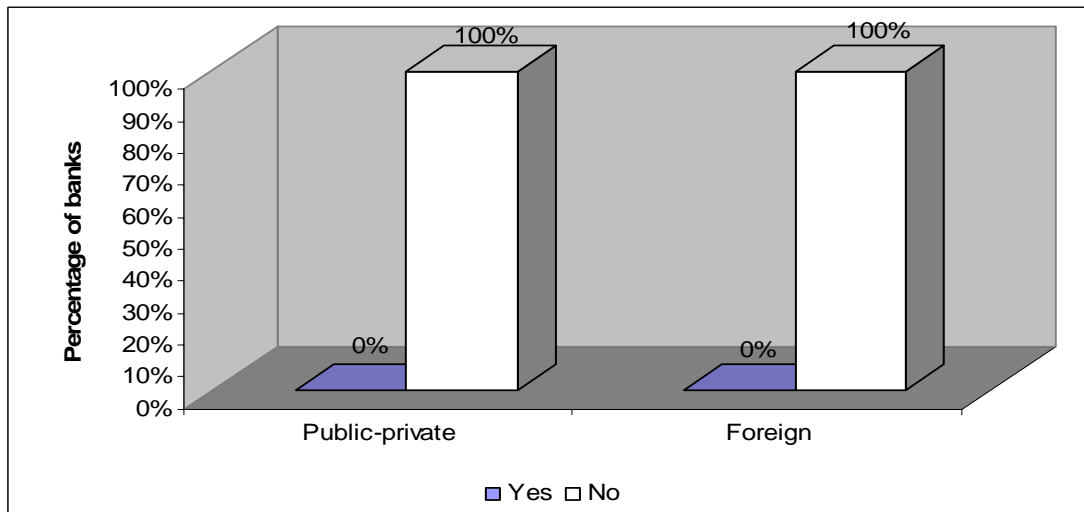
**Appendix Figure 23**

Management of the non-performing loans portfolio (II)

A. Do past losses feed into some model/estimate of minimum interest rate spread to cover expected losses?



B. Do past losses feed into some estimate of capital requirements?



**Appendix Figure 24**

Management of the non-performing loans portfolio (III)

A. What is the average number of years it takes to recover an SME loan?

**Note: Majority of responses "N/A"; "Not available"**

B. What is the average number of years it takes to recover an SME loan? (By type of bank)

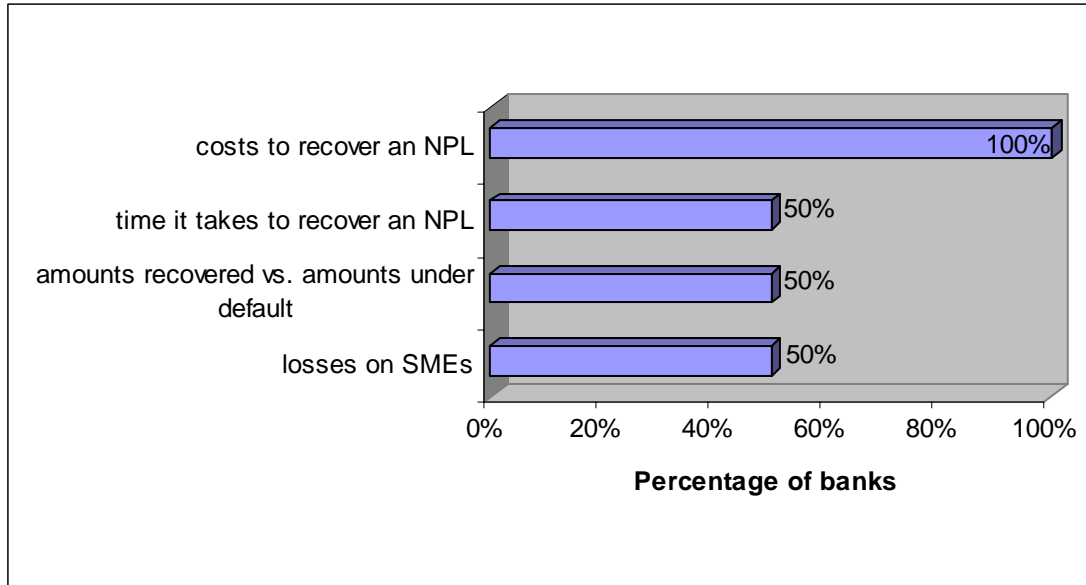
**Note: Majority of responses "N/A"; "Not available"**

C. What is the average cost to recover an SME loan?

**Note: No responses received**

**Appendix Figure 25**  
Management of the non-performing loans portfolio (IV)

A. Public-Private banks - Do you keep track of...



B. Private foreign banks - Do you keep track of...

