INTERNATIONAL HELLENIC UNIVERSITY
MSC IN BANKING AND FINANCE

PERSPECTIVE OF THE INVESTMENT BANKING FURTHER DEVELOPMENT BASED
ON COMPARATIVE STUDY IN UK AND SERBIA

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ABSTRACT

The aim of this paper is to describe and compare investment banking activities using the example of well-developed capital market such as UK market and the one in the transition countries taken Serbia as an example. Additionally, in this paper I would also consider possibilities for further investment banking activities in both markets and to what extent emerging markets are progressing in this field so far. Regarding the UK case I will focus on the investment banking institutions in the UK market in order to describe the current investment banking situation in the UK capital market and the investment banking activities in Serbia. Since in the Serbian financial market as an example of emerging market there are still no real investment banking activities issues I will be focusing on the steps that are made until now to enhance the development of investment banking in order to differentiate the current situation in UK and Serbia. Finally, I will consider possible changes that could take place in the near future on both markets as well as to innovation and challenges of investment banking in general.
To my mother
Table of contents

Abstract .......................................................................................................................................................... 2
Acknowledgements ...................................................................................................................................... 3
Section I- Introduction ................................................................................................................................. 5
Section II- LITERATURE Review ............................................................................................................... 8
Section III – Data and Methodology ........................................................................................................ 9
The investment banking industry ............................................................................................................... 9
The general overview of investment banking activities ............................................................................ 10
The emerging markets versus the well-developed capital markets ......................................................... 15
The basic economic data and facts about Serbian and UK capital markets ......................................... 17
The summary of results ............................................................................................................................. 18
The Serbian Investment banking industry ............................................................................................... 20
The UK investment banking industry ...................................................................................................... 24
Section IV-Conclusion and further recommendations ............................................................................ 29
Bibliography ............................................................................................................................................... 31
The main purpose of this study is to explore the business of the Investment banks throughout its core activities based on the example of one well-developed and organized banking system such as in the UK’s capital market example and the situation in the emerging markets taking Serbia as an example. The final aim would be to describe the current investment banking activities in the given market, outline the main differences between them by comparing it and to suggest the potential for further development of its activities.
In today’s fast-moving business world, investment banking is having an increasingly important role. Nowadays, it is more than clear that apart from its basic function to act as intermediaries in the financial transactions, companies today can substantially benefit from the advice provided by the investment banks. In spite of the presence of well-organized financial development departments, companies do need investment banks for successful carrying out of various projects, efficient network and client personnel use. Undoubtedly, being one of the most global industries in the world it is definitely not surprising that investment banking needs continuously to respond to the new developments in the financial markets. Thus, it can be said that due to the new changes that have taken place in the investment banking industry, investment banks today are emerged in a great variety of activities and most certainly they are doing much more than strategic advisory.

The main motivating factors for this research were to show the investment banking industry from the perspective of the two completely different markets taking the level of organization into account and by comparing the two markets to outline the stages in the investment banking activities development. The major limitation of this study is the fact that in the Serbian financial market we can not yet talk about the real investment banking activities in its core meaning as it is in its early development stage. However, the overall situation tends to improve and this paper will try to describe the current activities in the investment banking field. In the same time, this study objective will be to forecast its further improvement and to suggest its development zones. The aim of The Literature Review section is to gain deeper insights with the topic that is being presented in the paper relying on the previous research, opinions and statements on the given topic. One of the limitations of this section is that there are still no books available about the Serbian investment banking industry as it is not yet well developed.

The beginning of the Data and Methodology section is concerned with the basic information about the overall investment banking industry and its relation with the economy and the market trends. It also indicates the increasing importance of investment banks nowadays and the main advantages of including the investment bankers in the company’s business transactions. In The Data and Methodology section the overview of the investment banking activities is further described, highlighting its four core activities. Additionally, this section is related to the regulation, structure, trends and summing up the main differences between the emerging markets in general and the well-developed ones stressing the importance of the emerging markets in the business of the investment banks as well as the main risks that are related to the emerging markets. Furthermore, the aim of this section is also to describe the
basic economic facts about the Serbian and UK capital market relying on the most important economic indicators such as the GDP structure and other relevant aggregate data comparing the UK and Serbian industry. Also, the focus is on the future outlook for the Serbian capital market, its potentials to become a part of the world investment banking map as well as the FDI inflows and the further strategies. The rest of the Data and Methodology section is connected with the concrete description of the investment banking services in both countries including some of its most important investment banking organizations such as the SEECAP organization, Intesa, Vojvodjanska and Raiffeisen bank in Serbia and the Royal Bank of Scotland, Libra investment banking association, London’s investment funds, Stockopedia and the European Risk Capital in the UK. In the Results part there will be given summarized facts and findings about the most important differences between the two investment banking industries. Finally, the Conclusion and Recommendation section will represent the final overall picture stating the possibilities for further innovation, development and challenges in both market.
SECTION II - LITERATURE REVIEW

With regard to the Literature Review it is important to mention once again that there are no yet books available which will support the issue of the investment banks business due to the very narrow array of the investment banking services in the Serbian capital market. However, in the recent time when the investment banking topic is becoming more and more popular there are a lot of economists in Serbia discussing its current progress and the readiness of Serbian market for such services considering its structure and level of organization.

According to Radovan Jelasic, the former governor of the National Bank of Serbia, from the 2005 Serbia successfully managed to return again on the world investment map and therefore have further possibilities for its capital market improvements. He actually correlated the Serbian economic development including its overall banking system with the European Union cooperation. He further explained that there is a very important issue to outline as all the further points with regard to European Union cooperation are under condition on the program with the IMF as well as other bilateral agreements with European Investment Bank for example, that all highly depend on the level of cooperation with the IMF. In the banking system, these changes will contribute to the wider array of bank’s financial product, faster consolidation within the banking system itself and inevitably increased competition. As far as the insurance sector is concerned, it will certainly develop in the line with the banking sector with an increasing number of well developed and established international companies. Also, he emphasized that there is no doubt that investors are becoming increasingly interested to invest
in Serbia, mainly due to the following events that are lately actively taking place: The European Union Feasibility Study approval, agreement with the International Monetary Fund as well as the holding of the European Bank for Reconstruction and Development in the capital, Belgrade. Nevertheless, some western economist are still of the opinion that there is considerable risk involved in the Serbian financial market and this certainly is making the country’s overall economic progress. Serbia practically returned beck on the international financial market when the final agreement with the London Club was reached. Additionally, upon the conclusion of the three-year agreement with the International Monetary Fund, the country will receive another fifteen per cent write-off of its necessary debt to the Paris Club.

SECTION III- DATA AND METHODOLOGY

The Investment banking industry

The business of the investment banks as previously stated is extremely dynamic, constantly changing business due to the new challenges in the market place. Thus, it became essential for the investment banker to try their best in order to anticipate future market trends and to conduct analysis of each client as to be able to provide the most efficient solution that entirely meet the client’s needs.

Generally speaking, the investment banking industry plays a very important role in all market aspects. In order to be successful investment banks today have to have a strong financial strength, product line, to have global business activities and to constantly follow the current market changes as the investment banking industry is inevitably transformed by globalization, regulation, deregulation and recent
advances in technology. In Europe, for example the presence of the European Monetary Union, which has brought the common currency certainly has contributed to major changes in the global capital markets. Consequently, the introduction of euro currency led to lower interest rates in the countries that belong to the European Monetary Union. This has contributed to a considerable increase in the number of the mergers and acquisitions for example and underwriting business. As far as globalization is concerned, it can not be denied that the investment banks face fierce competition coming from domestic and international firms, as there is a strong need for the investment banks to become competitors on the global level.

It has to be stressed that investment banks cover a wide range of activities within the financial sector focusing primarily on the equity investments. This is as to say a principle difference between the investment and commercial banks which are mainly oriented on the credit extension issues.
In its core meaning investment banks operate as a link agent between corporations and usually governments who has an interest to attract investment capital as well as investors who posses financial power to buy securities.
Investment banks generate revenues by charging a corresponding fee for their transactions and the specific investment bank characteristic depend heavily on the legal and regulatory systems of the country where the investment bank is located. Thus, for example in UK, Japan and United States, investment banks are said to be quite independent while in the continental Europe they tend to be an integral part of some larger financial institution dealing with both-investment and commercial banking as well as insurance in some cases.

Given the different methods that are used in order to rank the size of the investment banks (depending on the total profits, total deal volume, assets under management), it is very hard to provide a definite ranking of the largest firms. However, among the world’s leading banks are inevitably said to be Morgan Stanley Dean Witter and Co, Credit Suisse First Boston, Citigroup, Goldman Sachs, Merrill Lynch, Citigroup in the United States as well as Nomura Securities in Japan.

*The general overview of the Investments banks activities*
The investment banks are engaged in the wide array of different activities. The principal aim of the investment banks is to assist in most efficient way in order to help its clients to achieve their goals.

By effectively trying to bring together the entities in the search of the new investors in the capital market, the investment banking industry undoubtedly is playing an important function in all market economies. Considering the fact that economic development can hardly be achieved without the enhanced capital market, improving the investment banking industry can be the best way for the appropriate capital formation, especially in the developing countries.

Nowadays, the services provided by the investment banks are so well developed and accessible that any company dealing with an important financial transaction can benefit to a great extent from the investment bank advice. Although a lot of large international corporations already have a well established finance and corporate development departments, the main advantage that investment banks can offer is objectivity, access to the in-depth information together with the most updated news resources, through research, financial tools and the wide contact network.

Generally speaking, the investment banks are engaging in providing advice to organizations, companies and governments. It could be said that the very original role of the investment banks was to raise the necessary capital and give advice to clients on the M&A and financial plans and business strategies. By the time, the investment banks took an increasingly active role on the financial advice on security issues including underwriting and distributing securities, brokerage services and providing advice on the various corporate deals. These days almost all investment banks put a lot of emphasis on the fixed income trading, commodities, and equity securities. Additionally, the investment banks today also assist to governments in their deals concerning the privatization of public entities. As far as the issue of the privatization is considered, there is no denying that privatization become a very lucrative business for investment banks as it is a source of considerable profit. As a consequence of the economy growth, there is a considerable number of the M&A and other debt and equity transactions in the capital markets allowing the investment banks to play a crucial role in advising and securing the necessary capital for companies in these transactions. Thus, as the industry changed due to many changes in the finance sector, investment banks today trade and issue equity and debt apart from direct lending to their clients.

In conclusion, investment banks today are much more than simply financial intermediaries between investors and executives.
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To summarize, the core investment banks business activities are:

*Raising capital*

With regard to the rising capital, investment banks are helping companies in order to achieve various aims such as to grow by expanding the existing operations, acquire some other company, reduce debt or assist in some specific company’s project financing. The necessary capital can be in a form of debt, common or preferred equity and it can include a combination of hybrid securities such as a convertible debt for example. The major part of the capital is actually raised through private placements, investment funds or private individuals. Investment banks are providing advice to the companies on the capital raising issues specifying the right timing, the form, from whom and how much and usually is charging a fee for its “underwriting” service in order to guarantee for the unsold securities left in the market so the issuer know exactly how much cash to raise.

There are several different ways in order to raise the capital such as the Rights Offering, Private Placements, Public Offerings and Employees Shares/Ownership Plan.

Under the Private Placements, the stocks are sold to a specific group of investors usually big institutional investors who heavily invest in the large block of shares. Stock offerings to existing shareholders who are entitled by the company to buy new shares issued at a so called discount price are under the Rights Offering function when a company is paning to raise an additional capital and make offer to its existing shareholders without trying to find other potential investors. As far as the Employees Shares are concerned, many companies are allowing to their employees to buy the company’s shares usually at the determined prices having in mind the company’s financial performance with an aim to tackle the principal-agency problem that often arise. The Initial Public Offering (IPO) process is as well actively organized by the investment banker. The initial steps in the IPO process are mainly concerned with the amount that is to be raised, the securities choice, negotiated deal and the appropriate choice of an investment banker.
Mergers and Acquisitions

The Investment banks often act as a company’s representatives in the mergers and acquisitions including the assistance in structuring a merger or joint venture, in-depth analysis of the entity that is being bought or sold and the necessary business valuations. The main financial reasons for making acquisitions are financial growth- to increase in size and profitability, enhance the position in the market and make its profit more predictable. In the M&A transactions investment banks are actively using their wide knowledge about the industry sector as to help the companies to identify better its potential targets as well as their knowledge of the financial markets for the company’s valuation purposes and the general advice how will the market as a whole react to the given M&A transaction. The most important advantages of relying on the investment bakers when it comes to closing the M&A transactions are that investment bankers can close the given transaction quickly and efficiently, can assist to help the company financing the M&A through issuing debt and equity and its special skills in structuring a deal can be effectively used.

Sales and Trading

The investment banks are mainly offering this service to the companies which are planning to go public or to publicly traded companies.

One of the primary roles of the large investment banks is to buy and sell financial products. The main function of selling the financial products by the investment banks is to make connection with the big institutional investors in order to propose the trading ideas and take orders. After that the sales department passes the client’s orders to the trading department who are then developing and structuring new financial products according to the client’s preferences. Strategists have the role to advice external as well as internal clients on different strategies which can be implemented in the market, placing great emphasis that the strategy describe the way in which will the company operate further in the marketplace, its desired direction and the possibility for the new product creation. With
the increased use of the financial derivatives by the banks, structuring has become a relatively new activity of investment banks supposing highly skilled employees working on creating the advanced structured products.

*Research and the General Advisory Services*

The General Advisory Services by the investment banks are mainly concerned with assisting in the company’s business valuations, strategic planning, evaluating the possible outcome of the proposed financial transaction and giving the opinion of the financial restructurings. The research division is actively engaged in reviewing the companies and based on that writing the corresponding reports concerning their prospects focusing on its buying and selling activities ratings. Thus, the research division is supporting the trading department, the sales department and investment bankers by assisting their clients. The research division is also paying attention on the outside clients with the perspective of becoming potential investors.

*The emerging markets versus well developed capital markets*

The emerging markets are becoming increasingly important as an integral part of today’s global capital markets. It can be said that the market of securities which belongs to developing countries, has a low GDP per capita and it is not a member of Organization of Economic Cooperation and Development can be defined as an emerging market. Examples of those markets would be Serbia, Russia, Mexico, China together with the most countries in Africa.

It has to be said that emerging markets are very important when it comes to investment banking activities if we take into account the potential profit investment banks could have by operating in the emerging markets. Thus, it is essential for the investment bankers to be fully aware of the overall situation in each emerging market’s sector. Also, a special attention should be given to the derivatives in the emerging markets which can be a very important tool in hedging risks.
In spite of the recent economic reforms towards the emerging markets like the one regarding the legal infrastructure in order to protect the investors introducing modern banking and security laws and expanding corporate ownership and governance, investment banks must consider several crucial risks when operating in emerging markets.

The basic risks which are most commonly associated with the emerging market are the Volatility risk, Liquidity risk, Settlement risk, Political risk and the Currency risk. As far as the volatility risk is concerned, the emerging markets are quite immature, prone to scandals and do not have enough legal infrastructure to enforce the law and consequently high degree of volatility is undoubtedly expected in emerging markets. Moreover, the appearance of the short –term highly speculative capital has influenced the accounting, settlement practices as well as disclosure and trading in the emerging markets.

Furthermore, it goes without saying that many emerging markets are illiquid. In many emerging markets there are a small number of companies that are listed in the stock exchange and consequently we have a low overall daily trading volume. Additionally, sometimes as the emerging markets are not well developed, it is difficult to sell shares due to corrupt practices and it is not rare case that in this markets foreign investments are restricted. With reference to the settlement rates which are considerably higher in comparison to the ones in well-developed efficient markets, we can talk about the settlement risk as the possible loss of the attractive opportunities in the market.

Undoubtedly, political risk has an impact on the emerging markets in terms of possible changes of the tax policies on the capital gains, dividends, foreign investors’ interests by the government. Government can also impose some changes and restrictions concerning foreign exchange regulations and the local currency. One of the most common problems connected with the emerging markets, certainly are inflation and various speculative trading which belong to the currency risk. This includes a threat of hedge funds in relation to the speculative trading. All the risk mentioned above are directly connected to the trading in emerging instruments as well. Still, investment banking activities in these markets should not be reduced. On contrary, investment banking operations in those markets can be successfully preformed with the appropriate use of derivatives for the diversification purposes.

It has to be said that each emerging market has its own characteristic in terms of regulation, transaction cost, capitalization, ownership structure and trading hours. Recently, some emerging markets are constantly trying to reduce restrictions connected with the foreign equity, but the entry limitations still
exist. The development of various derivatives in emerging markets is continuously being stimulated by the attempts to have lower costs and to invest in the new market instruments. In order to lower the cost of capital in the emerging markets, equity swaps, currency swaps and credit-default swaps are used. In countries with strong capital restrictions as to make investments easier, emerging market derivatives such as options, futures and forwards are actively used. Additionally, to hedge the overall risk’ exposure in the emerging markets forwards which are not deliverable are also widely spread.

In sharp contrast to the emerging markets efficient capital markets are the one for which we can freely say that they are efficient based on the regular and transparent inflow of the information.

**Basic economic facts and data about Serbian and UK capital market development and challenges**

Although, the Serbian financial market still can be described as underdeveloped and small with regard to other countries in Central and South Europe, considerable efforts are constantly being made by the National Bank of Serbia and Central Registry to create such Serbian market infrastructure which would be fully prepared for the future international and domestic IPOs. As in many other countries, the consequences of the financial crisis and the corresponding lack of the financial resources in 2010 could seriously slow down further development with regard to both production and consumption. One of the solutions that the Serbian government has provided together with the National Bank of Serbia is the Vienna Agreement with the ten European banks in which they reached an agreement to remain the same presence in the Serbian financial market. Moreover, a considerable decrease in the foreign capital inflow and the deficit in the current payment balance will continue to grow which will certainly bring difficulties in maintaining macro economic stability and foreign liquidity. In order to enhance the foreign capital inflow, the Serbian government should take steps in order to provide the stable economic outlook for the future. As to say the government should focus on improving the fiscal policy, public legislation, reduce corruption and implement advance security market regulation. Corruption, still remain one of the biggest problems Serbia is currently faced with. In the sharp contrast the UK capital market is the recognized efficient market considering its level of organization, development and innovation occupying the fifth place among the strongest world’s economies. Therefore, the UK’s capital market is an ideal location for the institutional investors and numerous companies worldwide to set up or expand their business further in the UK’s capital market. The London Stock Exchange is listed as one of the most important center regarding the number of international IPOs and foreign equity trading. The
city of London today has more than 250 branches of foreign banks which is the larger number compared with any other country in the world and occupies 70 per cent of trading in the international bond market.

Table 1 and 2 – GDP Real Growth Rate for the Serbia and UK

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP - real growth rate</th>
<th>Rank</th>
<th>Percent Change</th>
<th>Date of Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>5.90 %</td>
<td>72</td>
<td></td>
<td>2005 est.</td>
</tr>
<tr>
<td>2007</td>
<td>5.90 %</td>
<td>75</td>
<td>0.00 %</td>
<td>2005 est.</td>
</tr>
<tr>
<td>2008</td>
<td>7.30 %</td>
<td>47</td>
<td>23.73 %</td>
<td>2007 est.</td>
</tr>
<tr>
<td>2009</td>
<td>5.40 %</td>
<td>76</td>
<td>-26.03 %</td>
<td>2008 est.</td>
</tr>
<tr>
<td>2010</td>
<td>-3.00 %</td>
<td>163</td>
<td>-155.56 %</td>
<td>2009 est.</td>
</tr>
</tbody>
</table>
The Results Summary

Although, the Serbian financial market still can be described as underdeveloped and small with regard to other countries in Central and South Europe, considerable efforts are constantly being made by the National Bank of Serbia and Central Registry to create such Serbian market infrastructure which would be fully prepared for the future international and domestic IPOs.

According to the (RGE Serbia Outlook), the Serbia should focus on the capital investments and export activities in 2010. as the economic recovery could be slowed down due to a considerably lower credit exposure. Taking the loan agreement with IMF into consideration, the Serbian government will be obliged to freeze wages and pensions during 2010 with an aim to reduce the fiscal deficit. Due to the given situation with wages and pensions, slowed credit activities and increased unemployment, private consumption and income are expect to decline further in 2010.

Unlike the situation in the Serbia, UK is expecting further growth and recovery in 2010 judging by the RGE outlook. There has been a rise in the annual inflation of 3.5% in January which is above the target figure of 2%. The UK has a very well-developed banking sector. The best evidence to support this is the fact that amount of the assets which belong to the British banks is 400% of its GDP. UK’s banks are undoubtedly highly exposed to the international markets and consequently the British government had to support many large financial institutions with loans and deposit guarantees.

As an example of one of the most globalized economies, mainly due to the City of London which is considered as an extremely important financial center, the United Kingdom’ economy is listed as the second in Europe and in the fifth place worldwide with the GDP of $2.279 trillion. Approximately, about
130 of the 500 top global business companies are placed in London. UK is a member of the European Union but not the European Monetary Union-EMU, Organization for Economic Cooperation and Development and it is also a member of the Commonwealth organization. The UK’s economy is referring to the economies of England, Scotland, Wales and North Ireland.

Judging by the Purchase Power Parity, United Kingdom occupies the sixth place in the world. Also, the UK’s GDP per capita is above the average European level. In 2010 the UK’s GDP per capita is $35,721 while the 2010 forecasted inflation rate is 2.7%. The main UK’s GDP components if we take the industrial sector into consideration are Services Sector (business, financial, communication, hotels) has the largest GDP percentage of 76.6%, Industry and Manufacturing which occupies a smaller part of 22.8 per cent and the Agriculture Sector with the 0.9 GDP per cent. Taking the further forecast into consideration, the Bank of England interest and inflation rate are expected to stay under 1%.

The biggest difference between the Serbian GDP composition and the UK’s is the percentage of agriculture. In the Serbian GDP composition agriculture occupies the second place with the 12.3 per cent of the Serbian GDP, while the Industry Sector has 24.2 per cent and the biggest one like in UK’s case is the service Sector with the 63.5% of GDP. In sharp contrast with the UK are the estimated inflation and GDP per capita. As to say, by forecasts the inflation rate in 2010 will be 4.8% while the GDP per capita will be $5.898.

**The Serbian Investment banking industry**

As previously mentioned the major limitation of this study is underdeveloped Serbian investment banking industry focusing mainly on the brokerage services. In the following there will be described the investment banking services which are Serbian investment banks ready to offer as well as the SEECAP, most recent investment organization in Serbia.

**SEECAP**

SEECAP, an investment banking boutique, was established in Belgrade in 2001, from where it coordinates its activities towards the South East European countries. The core SEECAP business activities are connected with investment banking, auditing and legal issues. The SEECAP is placing a lot emphasis on human capital in terms of well experienced international/local staff in offering high-quality services to its clients, various innovative solutions on capital raising methods including M&A, mezzanine and different private equity investments.
SEECAP, as a member of IMAP, an exclusive global partnership international network that is spread across 35 countries with more than 100 offices based in Eastern and Western Europe, Australia, North and South America and counting 56 leading M&A and corporate finance firms. IMAP core functions as a large international organization whose members all together share and transmit the necessary information and knowledge is to support the mutual commitment in order to provide the best quality advisory services for every daily transaction across the globe as well as to conduct joint research.

Within the corporate finance activities the IMAP takes part in the defining acquisition opportunities throughout Europe as well as acquisitions on the large scale, foreign direct and Greenfield investments, corporate restructuring, due diligence and valuation, equity/debt security issuance and raising capital, cooperation with other financial institutions such as World Bank, International Financial Corporation and EBRD, leveraged buyouts, public takeovers, due diligence, strategic advisory, valuation and asset acquisitions. Private equity, mezzanine finance and venture capital are becoming more available in South East Europe. Many private companies are fast growing and need access to a range of sources of capital to finance their growth and expansion.

SSECAP, Belgrade also takes an active role in dealing with the following activities:

- Sell-side and buy-side advisory services
- Industry analysis & market entry strategy
- Company research and deal screening
- Acquisition target identification
- Preparation of investor documentation
- Business plan preparation and evaluation
- Company valuation and the Risk assessment & mitigation
- Acquisition strategy and joint venture/acquisition structuring
- Liaison and negotiation with relevant Government authorities, agencies and stakeholders
- Assistance in negotiations with owners/managers of M&A targets
- Support during closure of M&A transactions and Debt and equity acquisition finance advisory

**Intesa bank, Serbia**

One of the first private banks in Serbia was the Intesa bank. At the beginning of 2005, the bank started its business operations as an integral part of Banca Intesa Group and one year later has reached the
decision to expand the offer of its financial services and form its leasing company, Intesa Leasing. In 2007, the bank has become one of the most successful banks in Serbia, judging by its business activities. With the acquisition of Panonska bank, Intesa additionally improved its position in the market. Its core corporate values are excellence, financial transparency, equality, individual values and integrity. According to the financial magazine, the Banker, the bank is the bank of the year in Serbia. Also, London financial newspapers Finance Central Europe, listed the bank as the best medium sized bank in the South East Europe region.

Intesa bank is also involved in providing the analysis in the domestic Serbian financial market relying on its highly experienced employees in order to present the most accurate information and facts on the current market trends. This is very important as with the prediction of market’s movements, analytics give valuable insight to the companies concerning the movement of the foreign exchange and interest rate. In this way, companies can adjust their business risk and the foreign currency as they received the necessary information regarding the current risk exposure in the world market. Additionally, the given analysis can offer to the reliable indicators about the current company’s investments-estimating when is the best moment to buy/sell securities or to start an entirely new investment maximizing the overall portfolio value. Finally, more market information can certainly help companies for better assessment of its key competitors in its market branch and by mutual comparison foster the given company to use the maximum potential available in the domestic market.

As one of the leading banks in domestic financial market, bank decided to focus on the investment banking activities, dealing primarily with securities. Its investment banking activities involves the following:
• Custody services (including managing the clients’ securities and the investment management)
• Broker services (connected with the securities trading
• Services concerning the IPO organization (assisting in the initial public offering and underwriting of new securities emissions)
• Activities dealing with different takeover offers organization as well as the presentation of the shareholders to the potential bidders and Services with regard to the emission of securities

All the investment banking activities of the bank are conducted by highly specialized team of employees which represent the bank’s competitive advantage. As far as the broker-dealer transactions are
concerned, it refers to the trading with shares and bonds on the Belgrade Stock Exchange, the takeover’s organization and the trading with the safe deposits notes of the Republic of Serbia.

The bank’s custody services are related to the opening of the account ownership of securities as well as the cumulative account opening, custody services for investment management purposes, involvement in balancing and clearing of foreign securities, activities regarding the collection of the payment from the issuers and dealing with the requests for the transition of the rights stemming from securities and finally the automatic asset balancing activities.

**Vojvodjanska bank, Serbia**

Vojvodjanska bank undoubtedly has a long tradition and therefore is one of the most important bank in the Serbian financial market. In 2006, the bank was acquired by the National bank of Greece Group and this acquisition is said to be one of the most important sales process of all banks in Serbia controlled by the state. Consequently, after the acquisition of the bank, the group occupied the 5th place judging by its total assets and the second place in terms of branch network counting the total of 204 unites with the strong prospects for further development in the Serbian banking sector. After the takeover, the two banks both operate successfully in Serbia with the strong customer base and the total support of National Bank of Greece regarding the development of the banking product, capital, IT, operations management and the deposits potential which has a very positive influence on both – Serbian economy and the NBG group. The bank’s vision is to continue to maintain the profitable bank which is organized in a modern and efficient way in order to completely meet the need and demands of its clients and employees. According to the Group’s business plan in 2009, the South East Europe had the overall contribution of 13% to the Group income. With continual investment into further development, new personnel employment and the constant improvement of the current marketing and sales techniques, this bank will certainly become a powerful member of National Bank of Greece Group in the near future.

To begin with the investment banking activities of the given bank it is important to mention that the bank is a member of Belgrade Stock Exchange, Central Securities Depositary and Clearing House and the Stock Exchange Business Association. The bank has the role to represent its clients in public auction which are organized by the Privatization Agency as well as to provide the foreign currency bonds that are used as a mean of payment in these auctions. The services offered with regard to the operations with securities are the following:
• Distribution of securities (which includes dealing with the request issuance to the Securities commission, registration of securities at Central Securities Depositary and their placing in the market and the payment of shares by the bank)

• Registration of the Shares with the Central Securities Depository and Clearing House, securities registration in the accounts that belongs to the issuers and securities owners, corporate agent services referring to proving advice to the Shareholder’ Assembly and dividends payments.

• Adequate preparation of the strategy when it comes to takeover bids, “friendly takeovers”, increase of the share capital as well as providing the proper protection from the hostile takeovers and sending the given opinion of the Managing Board to the shareholders.

• Preparation of the offer for share takeover of the joint company in order to reach a minimum 25% of the voting shares

Additionally, the bank is offering extra services dealing with the operations of securities in the financial market such as mediation in the trade in treasury bills, shares, bonds, short-term securities including the loan for the Republic of Serbia economic recovery and conducting of various market surveys. The bank’s aim is to provide the necessary information about the changes in the market conditions and other services coping with selling or purchasing securities through its brokers in Belgrade Stock Exchange or OTC. Its clients are: Retail clients, Banks, Institutional Investors (pensions and investment funds) and broker-dealer firms.

When it comes to Custody operations, the bank is involved in the following activities:

• Keeping the securities accounts – referring to releasing information on corporate operations with securities to Shareholder’s Assembly as well as depositary change, representative statements and control of the accounts.

• Activities dealing with the clearing and settlement of securities and financial transactions which are steaming from the securities arrangements that have previously been concluded

• Proprietary accounts opening and the security registration, Transfer of the funds that have been requested by the clients and providing the expertise market reports.

**The UK Investment Banking industry**

Lately, the UK’s market is constantly taking an increasing part of the global investment banking market share judging by the presence of the HSBC, Barclays Capital and Standard Chartered for example. In
1999, HSBC, Standard Chartered, RBS and Barclays Capital- the four largest UK’s banking block had a 4.4 per cent investment banking fee pool while the same number for the Europe was 4 per cent.

With regard to the debt capital market it can be said that the British banks have made their strongest influence in this field. This can be easily explained by the fact that on the European level three out of five most successful bond issues underwriters are precisely British, with the RBS occupying the fourth place and with HSBC and Barclays Capital in the first and second place. Among the latest investment banking news in the UK, certainly is the creation of the green investment bank (£2bn). One of the biggest assets of the green investment bank formation is the possibility to successfully get of the drawing board some important projects. Additionally, it will certainly improve the UK’s energy infrastructure as it requires a great deal of investments in order to lower the cost of capital needed to support the infrastructure. More precisely half of the necessary budget needed for the green investment bank creation will come from the private investment and the rest from the sales of asset. The principal aim of such formation would be to provide affordable capital and credit that would enhance further investment but only to those companies that have a clear aim and that is to enable fast development to the UK carbon economy. One of the ways that necessary capital can be raised is through the mixture of carbon taxes and bonds. In order to successfully operate the green investment bank will need a support from local banks for the capital provision purposes.

It is a common knowledge that the principal role of the investment banks is to raise the capital. When the company wants to expand without enough money resources, it can either issue stocks or decides to issue bonds as debt securities. In that sense investment bank helps companies in these activities and each investment bank is unique in its specific skills and functions. Similarly, nowadays many investment banks go far beyond real estate and just stocks activities. In order to support the company’s growth investment banks also provides advice on M&A as well as other services for individual clients such as commodities, foreign exchange, equity, commodity and derivatives trading. All these services are very well developed among the UK investment banks such as for example Capital Partners LLP, European Risk Capital and Stockopedia in London which coves the stock market in the US.

Libra-London Investment bank association

The Libra association is in close cooperation with the other trade associations which focus on financial services industry in order to establish a joint activity for the efficient use of common resources. Libra
organizes a forum for Members with an aim to exchange view and information in international context as well as to form a link with the outside world for administrative purposes. Libra’s activities are supervised by a number of Committees and each of them has the role to supervise a specific area of Libra’s work. Committees together with the Working Parties which release details on specific issue are recruited directly from the senior personnel who are part of the Member companies. In that way Libra is making sure that the issues under examination bear relevance to the Members’ business and the views of the investment banking in general. The main role of Libra staff and the Committee Chairman is to constantly monitor that the Libra activities are carried out in a structured way and to ensure that the London would continue to be one of most attractive location for investment banking activities. Libra is the principal trade association based in the United Kingdom, primarily for the firms which are dealing with wholesale industry securities and investment banking activities. Additionally, Libra association represents the investment banks’ offices in London which are located around the world. Among the most important Libra’s investment banking activities are Investment management for the private clients and institution purposes, Securities trading and broking activities connected with equities, bonds and derivatives, corporate finance activities-particularly with regard to the issuance of new securities, M&A and takeovers and the protection of the interest rate and the currency risk.

The Royal Bank of Scotland has a wide range of investment banking services in order to meet the client’s needs such as Equity and Debt Capital Markets, Client Coverage, Global Restructuring, Syndication and Infrastructure Advisory. The RBS Investment management besides the regular reports on the performance of the client’s portfolio RBS put great emphasis on the active management of the portfolio by the highly experienced fund managers of whom the majority is accessible only to the institutional investors as well as the diverse asset allocation, index strategies and hedge funds including both UK and the international equities and bonds. The portfolio’s management is actively improved in order to meet the current trends and developments. Among the others advance RBS investment techniques, certainly is the Multi-Asset Portfolio service, conducted by the specialist portfolio management team primarily focusing on the capital enhancement, preservation and generation as main investment objectives. The RBS M&A sector offers a wide range of investment advice on its main activities such as spin-offs, strategic alliances, divestitures and corporate restructurings providing in-depth company valuations.
The global banking and markets which are continually being under investment banking operations are the main source of RBS profits. In the UK, the RBS is the largest lender to small business and its majority is owned by the government. Lately the UK government expresses wish that RBS reduce to a great extent its overseas operations which are considered to be risky investment banks business deals and has strongly supported the usage of the Asset Protection Scheme.

**European Risk Capital** is one of the most important investment banking practice when it comes to structured ways to raise capital and risk advisory activities, giving strong emphasis on financial and real estate services. Placed in London, European Risk Capital operates throughout the United Kingdom and the Continental Europe, establishing strong strategic partnerships with the most important institutions which enable them to provide their clients with the best in-depth expertise solution. The European Risk Capital has the goal that throughout its activities increase the overall client’s profitability, to raise cash as to reach competitive cost as well as to gain the optimal economic and capital structure. Among its various asset sector, clients could immensely benefit from the expert advice including the Emerging markets, Banks, Regulatory capital and the Financial institutions other than banks and Commercial Propriety and Infrastructure. As previously mentioned, one of the basic European Risk Capital’s function is risk advisory. Having in mind this function, the European Risk Capital is engaged in the following activities:

- Providing advice on asset backed funding and the interaction with the present and new potential investors
- Providing advice on asset backed funding and the interaction with the present and new potential investors
- Enhancement of a risk structure via portfolio analysis, reducing the cost of funding as well as making necessary preparations of Information Memoranda and the formulation of the funding terms and conditions and giving restructuring and recapitalization advice.

The second basic function of European Risk Capital is concerned with the Structured Capital Raising. The principal aim of this function is to ensure the firm’s access to main institutional sources of asset funding and structured debt and the proper funding plans implementation for well established institutions as well as for the start-up projects. As for successful capital raising strong partnership are formed with the Banks, Investors and bond Underwriters, Derivatives Counterparties, Venture Capitalists, Mezzanine Debt Providers and HWN Individuals. As far as sectors and clients are concerned in the emerging markets, LLP is dealing with access to international markets, advice on the Trade Finance and Property
Finance, debt structuring and asset sourcing. When it comes to Banks & Regulatory Capital, LLP is focused on Basle II improvements, Cash & Synthetic solutions, structured portfolio management, portfolio acquisitions and sales, Risk Transfer and improved Economic Capital velocity.

As its primary advantages LLP is stressing Cost Reduction (European Risk Capital does not posses its own product, so it can offer the most competitive cost to the clients), Significant Counterparty Relationships (which enables the clients to access the wide network of the leading players in the capital market including the hedge funds and private equity groups), Deferred Pricing Structure (in order to form long-term successful relationship with its clients), Quality instead of Quantity as well as the Tailor-made Approach (focused on client-specific evaluation which enables the most beneficial client specific solution).

**GAA ‘Q’ Fund in London**

The Fund’s aim is to constantly invest in equity and the company’s product that are related to equity in order to reach the fund’s absolute returns as well as to substantially reduce the risk exposure in the market with a proper risk management. The fund is relying on the on the mathematical ‘Quant’ model that involves structured processing and the interpretation of the given stock data as well as its forecasting. Among the fund’s key benefits are very dynamic approach when it comes to stock selection process based on the previously mentioned well developed ‘Quant Model’ as well as the fact that stocks selection is evaluated and reallocated on the monthly basis with the maximum weighting of no more then 5% of the portfolio for each stock.

Additionally, in order to protect the portfolio from the unexpected changes in the market fund is using a very dynamic hedging facility and has the ability to successfully analyze the given data for more then 38,000 stocks in the global stock markets. As far as diversification is concerned, on average between 90 and 120 stocks are purchased on the monthly basis and only mid to large cap stocks are taken into consideration.

When it comes to the fund’s investment strategy, the fund is placing great emphasis on the quantitative multi-factor models which include different factors such as price and earnings momentum, price to book ratios, price to cash ratio, price/earnings ratios and dividend yields. OFFSHORE FUNDS are based on the same principle as the mutual and onshore investment funds with an aim to provide and manage a well-balanced portfolio to ensure the potential benefits by pooling the investor’s money. Investing in the offshore funds is said to be one of the most tax efficient way if we want to manage our money in a proper way and to have the full advantage of offshore funds and its investment opportunities. We can say for one fund that is a part of the offshore investment if it belongs to the offshore centre and it is
used by non-residents. Generally speaking, these funds are paying very little local taxes which is a similar situation with the UK offshore banking.

SECTION IV – CONCLUSIONS AND FURTHER RECOMMENDATIONS

The aim of this section is to summarize investment banking activities, stating the possibility for its further development and innovation taking in the consideration the general investment banking industry and the current condition in Serbia and UK.

As far as the general investment banking industry is concerned, it is important to mention that the constant changes are taking place in the market and therefore the industry should try to implement those changes in its business. Thus, for the investment bankers it is extremely important to anticipate market trends and to conduct the necessary analysis well in advance as to be able to grasp new opportunities for the revenue possibilities, different products and services offered, its business expansion and proving the most efficient solutions for clients. The current trends such as various advances in technology, increasing globalization and new regulation undoubtedly heavily influence the investment banking industry. Apart from just expanding new arrays of is products and services, nowadays many large investment banks are deciding to expand geographically to the completely new
locations as to increase their global presence and profit to a great extent from the effective usage of international market growth potential. Also, the regulation measures in developing countries are changing in order to encourage new investments and international company’s capital. For example, large investment banks such as Merrill Lynch, Goldman Sachs and Morgan Stanley that already established a considerably strong global presence and highly increased its international securities operations, boost the global dominance of the U.S. investment banks and its overall profits coming from their international activities.

Furthermore, the Internet and the modern Information Technology also have tremendous effect on the investment banking industry in many different ways. One of the most important changes that the Internet has brought is the way securities are traded and distributed. Nowadays, many companies are using the Internet for its market activities worldwide, increasingly allowing their clients to have the access to the financial data and various valuation models 24 hours a day. Perhaps, the biggest innovation was the one concerning the initial public offerings share allocation through online auctions. Additionally, an increasing number of investment banks worldwide are developing special software and information technology systems with an aim to improve their services to the clients, especially regarding the risk management issues and enhancing the overall efficiency and control and research system. There is no denying that for the investment banks business, appropriate risk management system is of key importance in order to successfully perform its banking activities. Therefore, more and more investment banks are developing efficient risk management software, having in mind the investment bank’s growing need to price and structure complex derivatives as to analyze its risk degree. Not only can the efficient risk management software follow and analyze market risk at one company or divisions but it can also successfully evaluate the company’s overall risk in the case of sudden fluctuations in the interest and foreign exchange rates, equity and commodity prices which significantly diminishes the level of the risk involved when it comes to trading in the international markets. In conclusion, the information technology, globalization, new regulations and others trends in the market are continuously changing and will continue to transform the way investment banks are performing its business activities, bringing about new innovative trends and challenges.

Taking into account the Serbian market as the ground for further investment banking development activities, it is more than clear that it is closely correlated with the Serbian economic progress. Thus, it is important to state some facts and possible recommendations for its improvements. Firstly, it goes without saying that the role of the foreign resources has for a long time played a very important role in
the Serbian market as the shortage in the domestic capital was enhanced further by foreign resources. The positive effects of the foreign capital inflow are numerous as it certainly stimulates the rise of the gross domestic product, banking branches developments, improvement of the social standards and better supply of the domestic market. However what is very important to mention concerning the foreign investment inflow and the Serbian economic growth is the fact that the foreign capital must be effectively used and allocated in order to have the most positive results on the increase of production, export-import oriented activities and employment possibilities. The Serbian banking market has been developing quickly since 2004. Probably, the best indicator for this rapid development is the fact that the annual assets growth rate during 2004-2006 increased almost 50 per cent. In the league table of most rapidly growing banking markets in the CEE15 area, Serbia has occupied the second place, just after Romania. The change in the ownership as well as an increase in number of foreign banks coming to the Serbian market is without hesitation leading to the growth of Serbian market concentration. Thus, in the past few years the potential of Serbian market was very attractive for numerous successful companies such as packaging giant Tetra Pak and Merrill Lynch which recently reached a strategic partnership with Serbian MPC Properties. Although it can not be denied that in during the past few years Serbia had advanced and efficient reforms, especially in the privatization, there are still more things to be done in order to enhance banking performance in Serbia. As a country of Western Balkans, its principal strategic aim should be orientation towards EU in order to keep up with recent developments in banking sector. In that sense, Serbia should focus on implementing changes in the area of risk management, stock exchange and financial institutions as well as on reviewing its regulations. With efficient restructuring method supported by the government and foreign assistance a reliable and sound banking system is highly expected in the near future. The best way to improve competition in the banking sector is by improving transparency and educating consumers of financial services. Transparent market and educated consumers are crucial for an efficient financial and banking sector. In such a variety of commissions, nominal and effective interest rates, it is quite understandable that the citizens, e those with degree can not decide which service is best to choose. Having in mind that many of them are dealing with these services for a first time and that some banking products such as mortgage loans are in most cases used once in a lifetime, the responsibility of the banks and the National Bank of Serbia is that education and transparency becomes even grater. To sup up, we can conclude that the banks ought to provide precise and clear information about their services in a simple way to enable their clients to compare offers for different products and for the same products by different banks and be able to make right decisions.
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