



NATIONAL BANK OF SERBIA

BANK SUPERVISION DEPARTMENT

FINANCIAL LEASING SECTOR IN SERBIA

Second Quarter Report 2018

September 2018

Contents:

1 Basic information about the Serbian financial leasing sector	2
1.1 1.1 Overview of the basic parameters relevant to the financial leasing sector	2
2 Balance sheet structure	5
2.1 Balance sheet	5
2.2 Market share	7
2.3 Income statement	9
3 Structure of investment and asset quality	11
3.1 Structure of financial lease investment	11
3.2 Asset quality	12
4 Performance indicators	12

1 Basic information about the Serbian financial leasing sector¹

At end-Q2 2018, 17 lessors operated in the Serbian financial leasing sector:

1	CA Leasing Srbija d.o.o. Beograd	10	Procredit Leasing d.o.o. Beograd undergoing liquidation
2	ERB Leasing a.d. Beograd undergoing liquidation	11	Raiffeisen Leasing d.o.o. Beograd
3	Heta Leasing d.o.o. Beograd	12	S-Leasing d.o.o. Beograd
4	Intesa Leasing d.o.o. Beograd	13	Sogelease Srbija d.o.o. Beograd
5	LIPAKS d.o.o. Beograd	14	UniCredit Leasing Srbija d.o.o. Beograd
6	OTP Lizing d.o.o. Beograd	15	VB Leasing d.o.o. Beograd
7	NLB Leasing d.o.o. Beograd undergoing liquidation	16	Zastava Istrabenz Lizing d.o.o. Beograd
8	Piraeus Leasing d.o.o. Beograd	17	Scania Leasing RS d.o.o. Krnješevci ²
9	Porsche Leasing SCG d.o.o. Beograd		

1.1 Overview of the basic parameters relevant to the financial leasing sector

(number of employees, total balance sheet assets, total capital – by residence of the lessor's founder and total amount)

Table 1 Overview of basic parameters

(in RSD thousand, in %, as at 30 June 2018)

Ownership structure by owner nationality (residence)	Number	Assets		Capital		Employment	
		Amount	Share	Amount	Share	Number	Share
Lessors in 100% or majority ownership of domestic entities	9	71,452,078	89.3%	5,934,599	60.3%	276	79.7%
Lessors in 100% or majority ownership of foreign legal entities	8	8,603,704	10.7%	3,905,878	39.7%	76	20.3%
Total	17	80,055,782	100.0%	9,840,477	100.0%	359	100.0%

Namely, seven lessors in total were in 100% or majority ownership of foreign legal entities, while other ten lessors were in 100% or majority ownership of domestic entities (of which eight were owned by domestic banks with foreign capital) (Table 1 – Overview of basic parameters).

Specification of lessors with percentage of owners' share in the lessors' capital is shown in Table 2.

¹ All data presented in the Report are based on the data which the NBS collected in off-site supervision of lessors in Q2 2018.

² By the Decision dated 14 June 2018 Scania Leasing RS d.o.o. Krnješevci was licensed to perform financial leasing operations.

Table 2 – Financial lessor ownership structure

No	Lessor	Owner	% of ownership
1	CA Leasing Srbija d.o.o. Beograd	Credit Agricole Banka Srbija a.d. Novi Sad	100
2	ERB Leasing a.d. Beograd	EFG New Europe Holding b.v, Amsterdam, the Netherlands EFG Eurobank Ergasias s.a. Athens, Greece Eurobank a.d. Beograd	48.63 25.81 25.56
3	Heta Leasing d.o.o. Beograd	HETA Asset Resolution GmbH, Klagenfurt, Austria	100
4	Intesa Leasing d.o.o. Beograd	Banca Intesa a.d. Beograd	100
5	LIPAKS d.o.o. Beograd	Mirko Žeželj Zoran Tanasić Sandra Džodić Milorad Milić	48.19 48.19 3.11 0.51
6	OTP Lizing d.o.o. Beograd	OTP banka Srbija a.d. Novi Sad	100
7	NLB Leasing d.o.o. Beograd undergoing liquidation	Nova Ljubljanska Banka d.d. Ljubljana, Slovenia	100
8	Piraeus Leasing d.o.o. Beograd	Piraeus Bank a.d. Beograd	100
9	Porsche Leasing SCG d.o.o. Beograd	Porsche Bank AG, Salzburg, Austria	100
10	Procredit Leasing d.o.o. Beograd	ProCredit Bank a.d. Beograd	100
11	Raiffeisen Leasing d.o.o. Beograd	Raiffeisen banka a.d. Beograd	100
12	S-Leasing d.o.o. Beograd	Steiermarkische Bank und Sparkassen Aktiengesellschaft, Graz, Austria Erste Bank a.d. Novi Sad	25 75
13	Sogelease Srbija d.o.o. Beograd	Societe Generale Bank Srbija a.d. Beograd	100
14	UniCredit Leasing Srbija d.o.o. Beograd	UniCredit bank Srbija a.d. Beograd Beograd	100
15	VB Leasing d.o.o. Beograd	VB-Leasing International Holding GmbH, Vienna, Austria	100
16	Zastava Istrabenz Lizing d.o.o. Beograd	Istrabenz D.D. Portorož, Slovenia Grupa Zastava vozila a.d. Kragujevac – undergoing resolution	95.2 4.8
17	Scania Leasing RS d.o.o. Krnješevci	Scania CV ACTIEBOLAG, Södertälje, Sweden	100

The classification of lessors by sector of the founder (banking/non-banking sector) has not changed since the establishment of a regulated financial leasing market in

Serbia. Fourteen lessors were founded by banks, banking group members or other financial institutions, while only three lessors were in majority ownership of non-banking sector entities.

At the end of this quarter, **the number of employees** in the financial leasing sector was 359, up by seven from the prior quarter.

Total balance sheet assets of the sector stood at RSD 80.1 bn (up by 7.7% q-o-q).

Total capital equalled RSD 9.8 bn (up by 2.9% compared to the end of the previous quarter).

As in the previous quarter, four lessors made up for as much as 61.9% of the financial leasing market in terms of their total balance sheet assets, while, on the other hand, three lessors held individual shares of below 10.0% and the remaining nine lessors had individual market shares of less than 5.0%.

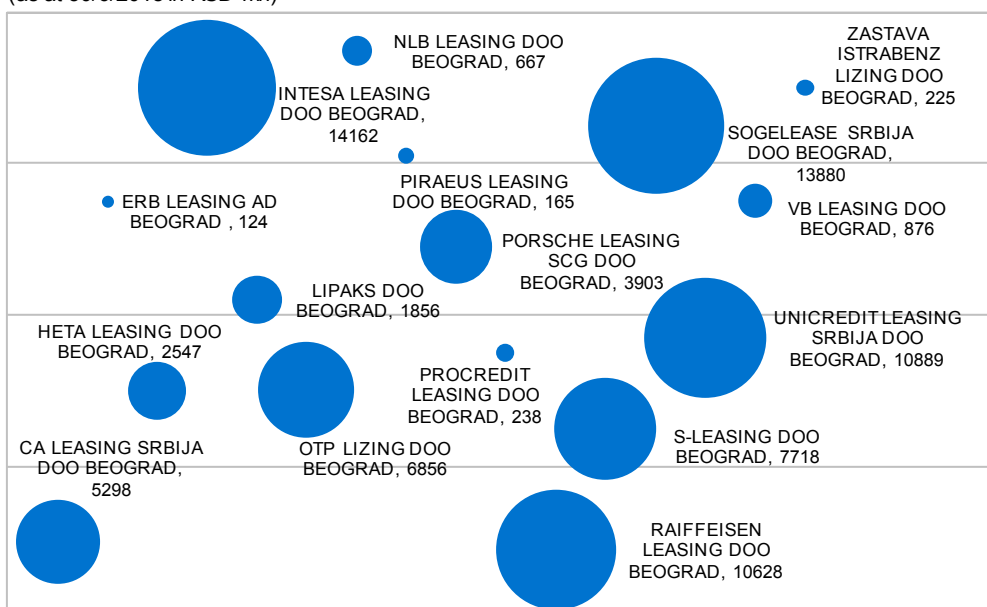
Financial leasing sector is profitable. Return on assets (ROA) of the financial leasing sector amounted to 2.17%, while return on equity (ROE) equalled 17.68% as at 30 June 2018.

Financial leasing sector has a relatively low share of non-performing assets in total portfolio (receivables from financial lease)

On 30 June 2018, financial lease receivables past due more than 90 days accounted for 3.4% of gross financial lease receivables at the level of the sector. The net carrying value of these receivables accounted for 0.1% of total net portfolio, down by 0.2% relative to the end of the last year and by 0.6% relative to end-2016.

The data on the share of individual lessors on the Serbian financial leasing market by total balance sheet assets and by the amount of receivables (portfolio) can be found in the second part of this report which refers to the balance sheet structure.

Chart - 1 **Balance sheet total of leasing sector**
(as at 30/6/2018 in RSD mn)



Source: National Bank of Serbia.

Net profit at end-Q2 2018 reached RSD 773.9 mn. Of the total of 16 lessors, five lessors had a negative net result.

At end-Q2 2018, eight lessors (*Intesa Leasing d.o.o.*, *OTP Lizing d.o.o. Beograd*, *CA Leasing d.o.o. Beograd*, *Sogelease Srbija d.o.o. Beograd*, *VB Leasing d.o.o. Beograd*, *S-Leasing d.o.o. Beograd*, *UniCredit Leasing Srbija d.o.o. Beograd*, *Porsche Leasing SCG d.o.o. Beograd*) had prior consent of the NBS for rendering insurance agency services, though the share of income generated on this account does not represent a significant item in their total income.

Three lessors are undergoing voluntary liquidation, approved by the NBS.³

2 Balance sheet structure

2.1 Balance sheet

As at 30 June 2018, balance sheet assets of all financial lessors totalled RSD 80.1 bn, up by 7.7% relative to the previous quarter.

The largest share (88.2%) of total balance sheet assets was that of financial lease receivables (portfolio). These receivables amounted to RSD 70.6 bn, which is an increase of 7.1% relative to the previous quarter.

Lessors' current assets recorded an increase by 14.3%, mostly driven by a significant rise in cash and cash equivalents, by 178.9% compared to the end of the previous quarter.

At end-Q2 2018, the capital of all lessors amounted to RSD 9.8 bn, with a 12.3% share in total balance sheet liabilities. Compared to the quarter before, total capital gained 2.9%.

As at 30 June 2018, long-term liabilities accounted for the largest share of lessors' total balance sheet liabilities – 78.0%. Long-term loans from foreign creditors made up the dominant share of long-term liabilities. In the majority of cases, foreign creditors of lessors were either their founders or legal entities operating within the same banking group.

On 30 June 2018, total long-term liabilities increased by 10.4% from 31 March 2018.

Long-term foreign borrowing made up the dominant share of long-term liabilities (66.8% share of total liabilities). At end-Q2 2018, long-term domestic loans held a 11.2% share in total balance sheet liabilities, up by 48.8% relative to the previous quarter.

As at 30 June 2018, the share of short-term liabilities in total balance sheet liabilities went down from 10.1% to 8.8% compared to 31 March 2018. Domestic short-term loans accounted for the bulk of short-term liabilities (83.5%). The total

³ According to the NBS decision issued on 19 April 2018, voluntary liquidation was approved for one more lessor.

short-term liabilities reached RSD 7.0 bn on 30 June 2018. This is a 6.3% decrease relative to the previous quarter, when they stood at RSD 7.5 bn.

The bulk of lessors' balance sheet assets were foreign currency-indexed receivables (86.8%), while the majority of balance sheet liabilities were foreign currency denominated (67.1%), which is in line with the structure of debt, given the creditors' residence.

The comparative balance sheet of lessors in RSD thousands as at 31 December 2017 and 30 June 2018 is presented in Table 3.

Table 3 The comparative balance sheet of financial lessors (in RSD thousand)

Number	ITEM	31 12 2017		30 6 2018		% growth 30 6 18/31 12 17
		Amount	%	Amount	%	
	ASSETS	75,321,330	100.0	80,055,782	100.0	6.3
1	FIXED ASSETS	66,102,295	87.8	71,628,262	89.5	8.4
1.1	Property, plant and equipment	200,705	0.3	180,616	-8.5	-10.0
1.2	Financial lease receivables	65,278,470	86.7	70,583,821	88.2	8.1
1.3	Long-term financial assets	562,020	0.7	801,786	1.0	42.7
1.4	Other fixed assets	61,100	0.1	62,039	0.1	1.5
2	CURRENT ASSETS	9,319,035	12.2	8,427,520	14.8	-8.6
2.1	Cash and cash equivalents	3,961-690	5.3	5,503,041	6.9	38.9
2.2	Short-term financial lease receivables	119,807	0.2	116,806	0.1	-2.5
2.3	Short-term financial assets	3,974,327	5.3	1,798,351	2.2	-54.8
2.4	Other short-term receivables	219,996	0.3	276,120	0.3	25.5
2.5	Other current assets and deferred tax assets	943,215	1.0	733,202	0.9	-22.3
	LIABILITIES	75,321,330	100.0	80,055,782	100.0	6.3
1	CAPITAL	9,258,775	12.3	9,840,477	12.3	6.3
1.1	Core capital	7,230,976	9.6	7,230,976	9.0	0.0
1.2	Reserves	40,151	0.1	40,151	0.1	0.0
1.3	Revaluation reserves	429	0.0	3,318	0.0	673.4
1.4	Net unrealised gains/losses	9,731	0.0	7,293	-18.1	-25.1
1.5	Retained earnings	4,591,139	6.1	5,166,948	6.5	12.5
1.6	Loss	2,613,651	3.5	2,608,209	3.3	-0.2
1.7	Purchased own shares and stakes	0	0.0	0	0.0	-
2	LONG-TERM PROVISIONING AND LIABILITIES	55,997,862	74.3	63,184,129	78.9	12.8
2.1	Long-term provisions	743,767	1.0	748,193	0.9	0.6
2.2	Long-term liabilities	55,254,095	73.4	62,435,936	78.0	13.0
2.2.1	Long-term domestic loans	6,106,064	8.1	8,960,254	11.2	46.7

Table 3 The comparative balance sheet of financial lessors (in RSD thousand)

Number	ITEM	31 12 2017		30 6 2018		% growth 30 6 18/31 12 17
		Amount	%	Amount	%	
2.2.2	Long-term foreign loans	49,148,031	65.3	53,475,682	66.8	8.8
2.2.3	Other long-term liabilities	0	0.0	0	0.0	-100.0
3	SHORT-TERM LIABILITIES	10,064,693	13.4	7,021,176	8.8	-30.1
3.1	Short-term financial liabilities	9,256,470	12.3	5,954,048	7.4	-35.7
3.1.1	Short-term domestic loans	9,187,015	12.2	5,874,006	7.6	-36.1
3.1.2	Short-term foreign loans	0	0.0	0	0.0	0.0
3.1.3	Liabilities under interest and other costs of financing	69,455	0.1	80,042	0.1	15.2
3.2	Financial lease liabilities	249,286	0.3	230,027	0.3	-7.7
3.3	Other liabilities and deferred tax liabilities	558,937	0.7	847,101	1.1	51.6

Source: NBS.

2.2 Market share

For the purpose of monitoring the structure of the financial leasing market and the degree of competition among lessors, calculations were made of individual and cumulative market shares of lessors' balance sheet totals, as well as of the Herfindahl-Hirschman Index (HHI). Lessors were also ranked based on the size of individual market share as determined by the level of receivables from financial leasing (portfolio).

Table 4 – Market share of lessors by balance sheet assets

Ranking	Lessor	Balance sheet assets		Lessor	Balance sheet assets		
		(in RSD thousand)	Share		(in RSD thousand)	Share	
1	Intesa Leasing d.o.o. Beograd	14,161,982	17.7%	9	Heta Leasing d.o.o. Beograd	2,574,388	3.2%
2	Sogelease Srbija d.o.o. Beograd	13,879,769	17.3%	10	Lipaks Leasing d.o.o. Beograd	1,856,267	2.3%
3	UniCredit Leasing d.o.o. Beograd	10,889,096	13.6%	11	VB Leasing d.o.o. Beograd	875,550	1.1%
4	Raiffeisen Leasing d.o.o. Beograd	10,628,193	13.3%	12	NLB Leasing d.o.o. Beograd undergoing liquidation	667,067	0.8%
5	S-Leasing d.o.o. Beograd	7,717,672	9.6%	13	Procredit Leasing d.o.o. Beograd	238,486	0.3%
6	OTP Lizing d.o.o. Beograd	6,856,065	8.6%	14	Zastava Istrabenz Lizing d.o.o. Beograd	220,293	0.3%
7	CA Leasing Srbija d.o.o. Beograd	5,297,701	6.6%	15	Pireus Leasing d.o.o. Beograd	165,333	0.2%

Table 4 – Market share of lessors by balance sheet assets

Ranking	Lessor	Balance sheet assets (in RSD thousand)	Share	Lessor	Balance sheet assets (in RSD thousand)	Share	
8	Porsche Leasing SCG d.o.o. Beograd	3,903,460	4.9%	16	ERB Leasing a.d.Beograd	124,460	0.2%
TOTAL		80,055,782	100.0%				

Source: NBS.

The first four ranked lessors, whose assets make up over half of the market, retained their positions held at the end of the previous year.

Table 5 – Market share of lessors by financial lease receivables (portfolio)

Ranking	Lessor	Portfolio (in RSD thousand)	Share	Lessor	Portfolio (in RSD thousand)	Share	
1	Intesa Leasing d.o.o. Beograd	13,316,352	18.9%	9	Lipaks Leasing d.o.o. Beograd	1,160,779	1.7%
2	Sogelease Srbija d.o.o. Beograd	13,362,620	18.9%	10	VB Leasing d.o.o. Beograd	782,052	1.1%
3	Raiffeisen Leasing d.o.o. Beograd	9,589,901	13.6%	11	Zastava Istrabenz Lizing d.o.o. Beograd	149,948	0.2%
4	UniCredit Leasing d.o.o. Beograd	9,599,091	13.6%	12	Pireus Leasing d.o.o. Beograd	103,648	0.2%
5	S-Leasing d.o.o. Beograd	7,302,304	10.4%	13	Heta Leasing d.o.o. Beograd	43,877	0.1%
6	OTP Lizing d.o.o. Beograd	5,944,783	8.4%	14	NLB Leasing d.o.o. Beograd undergoing liquidation	2,214	0.0%
7	CA Leasing d.o.o. Beograd	5,144,874	7.3%	15	Procredit Leasing d.o.o. Beograd	788	0.0%
8	Porsche Leasing SCG d.o.o. Beograd	3,809,888	5.4%	16	ERB Leasing a.d.Beograd	702	0.0%
TOTAL		70,583,821	100.0%				

Source: NBS.

Market share of lessors by portfolio changed slightly relative to the previous quarter.

Judging by the *Herfindahl–Hirschman Index*, which equalled 1,226.5 on 30 June 2018, the financial leasing market falls into the category of moderately concentrated markets.

2.3 Income statement

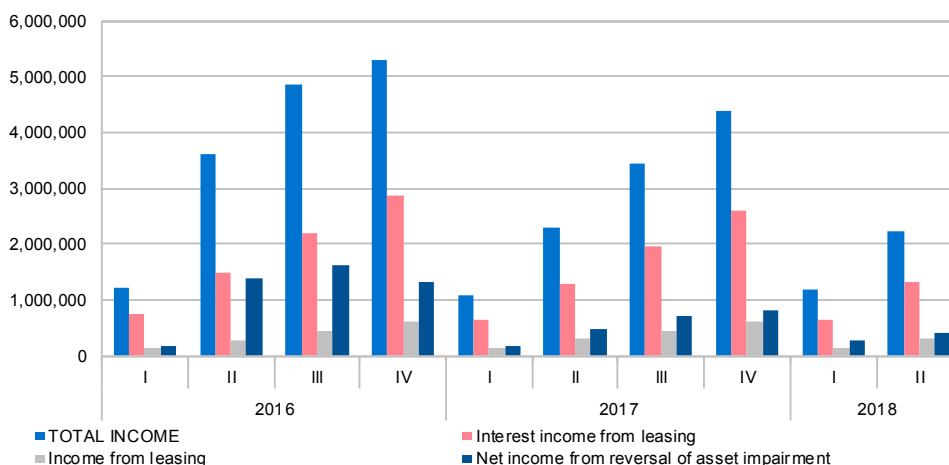
Total pre-tax profit of the financial leasing sector as at 30 June 2018 was positive, reaching RSD 844.0 mn. Of the total number of lessors, five recorded a negative pre-tax result (RSD 63.6 mn), while others had a positive pre-tax result.

Profit of the financial leasing sector as at 30 June 2018 increased by 67.5% compared to the second quarter of the last year when it stood at RSD 504.0 mn. Total income and gains as at 30 June 2018 decreased by 1.9% compared to 30 June 2017, while total expenses and losses decreased by 21.5%.

The most significant category of income was interest income from leasing (as primary income of lessors), with the share of 58.6% in total income as at 30 June 2018. Net income from impairment of assets had a 17.7% share in total income, followed by income from leasing (income from the performance of primary activities) – 13.7%. Other gains and income (income from premiums, subsidies, grants, donations, income from the reversal of long-term provisions, etc.) had a 7.3% share in total income. The share of other categories of income in the structure of total income changed negligibly.

The structure of the most significant income is given in Chart 2 – Structure of income.

Chart 2 **Structure of revenue**

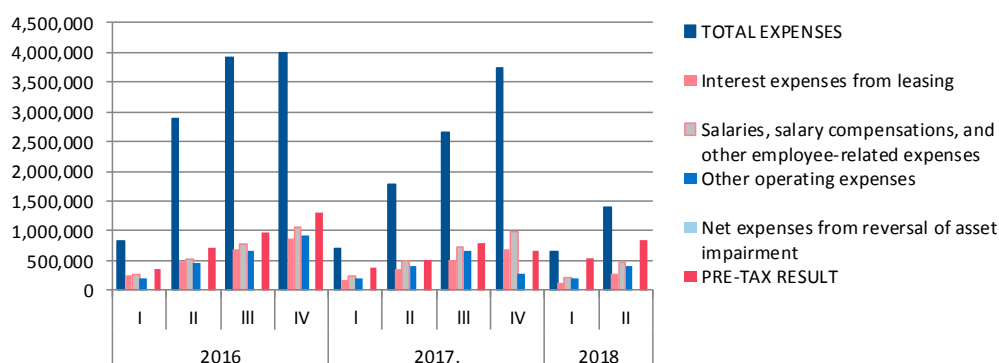


Source: National Bank of Serbia

The largest share in the structure of total expenses was held by: salaries, salary compensations, and other employee-related expenses (33.3%), followed by other operating expenses (29.4%), lease interest expenses (19.4%), financial leasing expenses (7.0%) and depreciation and provisioning expenses (6.8%)

The structure of the most significant expenses is given in Chart 3 – Structure of expenses.

Chart 3 Structure of expenses



Source: National Bank of Serbia

The comparative balance sheet of lessors in RSD thousands as at 30 June 2017 and 30 June 2018 is presented in Table 6.

Table 6 Aggregate profit and loss account of all lessors (in RSD thousands)

No	ITEM	30 6 2017	% of tot. inc.	30 6 2018	% of tot. inc.	% growth 2017/2018
INCOME AND EXPENSES FROM REGULAR OPERATIONS						
OPERATING INCOME AND EXPENSES						
1	Interest income from leasing	1,303,516	56.9	1,317,323	58.6	1.0
2	Interest expenses from leasing	350,528	15.3	271,521	12.1	-22.5
3	Income from leasing	310,309	13.5	308,536	13.7	-0.6
4	Expenses from leasing	118,260	5.2	97,614	4.3	-17.5
1	BUSINESS RESULT	1,145,037	50.0	1,256,724	55.9	9.8
OTHER INCOME AND EXPENSES						
5	Net income from other interest	39,145	1.7	48,131	2.1	23.0
6	Net expenses from other interest	0.0	0.0	0.0	0.0	–
7	Net income from exchange rate differences and currency clause effects	0	0.0	707	0.0	–
8	Net expenses from exchange rate differences and currency clause effects	80,724	3.5	0	0.0	–
9	Net income from share in the profit of subsidiary legal entities and joint ventures	0	0.0	0	0.0	–
10	Net expenses from share in losses of subsidiary legal entities and joint ventures	0	0.0	0	0.0	–
11	Net income from sale and lease	12,198	0.5	4,654	0.2	-61.8
12	Net losses from sale and lease	0.0	0.0	0.0	0.0	–
13	Salaries, salary compensations and other employee-related expenses	492,828	21.5	467,289	20.8	-5.2
14	Depreciation and provisioning	116,721	5.1	96,080	4.3	-17.7
15	Other operating expenses	420,078	18.3	411,902	18.3	-1.9

Table 6 Aggregate profit and loss account of all lessors (in RSD thousands)

No	ITEM	30 6 2017	% of tot. inc.	30 6 2018	% of tot. inc.	% growth 2017/2018
16	Net income from sale of intangible investment, property, plant, equipment and other assets	4,279	0.2	2,968	0.1	-30.6
17	Net loss from sale of intangible investment, property, plant, equipment and other assets	0	0.0	0	0.0	–
18	Net income from sale of share in capital and securities	0	0.0	1,254	0.1	–
19	Net loss from sale of share in capital and securities	0	0.0	0	0.0	–
20	Net income from impairment of assets	478,574	20.9	398,791	17.7	-16.7
21	Net expenses from impairment of assets	0	0.0	0	0.0	–
22	Other income and gains	142,296	6.2	164,431	7.3	15.6
23	Other expenses and losses	207,222	9.0	58,370	2.6	-71.8
II	REGULAR OPERATING RESULT	503,956	22.0	844,019	37.6	67.5
24	NET GAIN FROM DISCONTINUED OPERATIONS	0	0.0	0	0.0	–
25	NET LOSS FROM DISCONTINUED OPERATIONS	0	0.0	0	0.0	–
III	PRE-TAX RESULT	503,956	22.0	844,017	37.6	67.5
26	PROFIT TAX					
26.1	1 Tax expense of the period	56,581	2.5	63,512	2.8	12.5
26.2	2 Deferred tax expenses of the period	0	0.0	6,854	0.3	–
26.3	3 Deferred tax income of the period	109	0.0	207	0.0	–
27	Paid personal income to employer	0	0.0	0.0	0.0	–
IV	NET RESULT	447,484	19.5	773,81	34.4	72.9
V.	TOTAL INCOME AND PROFIT	2,290,317	100.0	2,246,795	100.0	-1.9
VI	TOTAL EXPENSES AND LOSSES	1,786,361	78.0	1,402,776	62.4	-21.5

Source: NBS.

3 Structure of investment and asset quality

3.1 Structure of financial lease investment

In Q2 2018, as in the years before, the bulk of lease investment went (84.4%) to corporates outside the financial sector.

Looking at the structure of financial lease investment by the lease asset, at end-Q2 2018 the financing of freight vehicles, minibuses, and buses continued to account for the largest share (40.3%), followed by passenger vehicles (36.0%). Other lease assets had a share of less than 10.0%.

The sector structure of investment in Q2 shows a predominance of transport, warehousing, information and communications – 31.6%. Trade also accounted for a significant share with 16.1%, as did manufacturing, mining and water supply with 14.0% and construction with 8.4%.

3.2 Asset quality

The value of financial lease receivables as at 30 June 2018 was RSD 70.6 bn, which represents a 7.1% increase relative to the end of the last quarter (RSD 65.9 bn).

At end-Q2 2018 gross receivables past due equalled RSD 3.4 bn, making up 4.6% of gross financial lease receivables. At end-2017 these receivables amounted to RSD 4.5 bn, but went on a decline thereafter, which is perceived as the continuation of a positive trend. At end-2016, these receivables amounted to as much as RSD 5.8 bn.

The net carrying value of past due receivables was RSD 789.5 mn, with a share in portfolio of 1.1%. The net carrying value of past due receivables declined negligibly compared to end-2017, also declining compared to end-2016, when these receivables amounted to RSD 951.1 mn.

Net receivables past due were relatively low (8.0%) compared to the capital of the financial leasing sector as at 30 June 2018.

At end-Q2 2018, receivables past due more than 90 days made up the largest share of total receivables past due. These receivables equalled RSD 2.5 bn as at 30 June 2018. Their share in total gross receivables from leasing accounted for 3.4%. The net carrying value of receivables past due more than 90 days made up 0.1% of the total net portfolio, decreasing from end-2017 (0.2%) and from end-2016 (0.6%).

Allowances for impairment of receivables due and not due came at RSD 3.2 bn as at 30 June 2018 and their share in total gross financial lease receivables was 4.4%, while at the end of the previous year it was 6.7%. This is a significant decrease compared to end-2016 when allowances for impairment amounted to RSD 6.8 bn, with a share of 10.7% in total gross receivables.

In Q2 2018 lessors' returned lease assets were worth RSD 403.4 mn, which, combined with the assets carried over from previous years, amounted to RSD 603.8 mn or 0.9% of the portfolio. Of the total value of returned lease assets, lessors re-leased 21.8%, sold 53.0%, while 21.5% remained idle. As at 30 June 2018, net carrying value of returned lease assets amounted to RSD 129.8 mn, or 0.2% of the portfolio.

4 Performance indicators

Q2 2018 recorded a rise in ROA from 1.48% to 2.17% and in ROE from 11.59% to 17.68%, relative to Q2 2017.

Net interest margin was 3.22% (at end-Q2 2017 it amounted to 3.36%). At end-Q2 2018 the average lending interest rate was 4.06%, which is a slight decrease y-o-y (Q2 2017: 4.64%). The average deposit interest rate stood at 0.86% (end-Q2 2017: 1.33%).

The conclusion that can be drawn from the analysis of solvency is that the lessors' main sources of funds are loans and borrowing. Based on the leverage ratio which stood at 0.87 in Q2 2017 and Q2 2018 one can conclude that the share of borrowed assets in total sources of funds of the lessors is 87%. Also, according to the data pertaining to lessors' creditors, the bulk of total liabilities of the financial leasing sector are the liabilities to banks and other credit institutions (at end-Q2 2017: 96%, while at end-Q2 2018 this amount went up by 1 pp). Finally, according to the leverage ratio the financial leasing sector is indebted but not over-indebted.

As already said, ROA and ROE of the financial leasing sector at end-Q2 of the current year recorded a significant increase relative to the same period of the year before, indicating not only the increase in profitability but also higher solvency, and suggesting a positive financial leverage effect in the financial leasing sector.