

National Bank of Serbia

BANKING SECTOR IN SERBIA

Third Quarter Report 2007

November 2007

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I. Banking sector in Q3 2007

Structure of the Serbian banking sector as at 30 September 2007

Number of banks

The number of banks operating in the Serbian market remained unchanged from the preceding quarter, whereas compared to end-2006, it declined by one (two banks merged with a third one and one new bank was set up by way of transformation of another financial organization).

	31 Dec 2005	31 Dec 2006	30 Sep 2007
Number of banks	40	37	36

Network of banks

In late September 2007, the organizational network of all banks included 2,331 business units, branches, branch offices and teller units. This is 81 more than at the end of Q2. Major contributors to the expansion of bank network were Raiffeisen banka a.d. Beograd with 13 new organizational units and Credi banka a.d. Kragujevac with 11 new organizational units. On the other hand, organizational networks of two banks shrank (Meridian bank a.d. Novi Sad – by 5 and OTP banka Srbija a.d. Novi Sad – by 2).

Description	31 Dec 2005	31 Dec 2006	30 Sep 2007
Number of business units	114	82	89
Number of branches	327	413	464
Number of branch offices	1,162	1,387	1,490
Number of teller units	264	276	288
Total	1,867	2,158	2,331

Banking sector employment

In Q3, the domestic banking system employed a total of 29,727 persons, which is 452 more than at end-Q2.

One bank had an unchanged number of employees, 9 banks reduced the number of their employees (most of all Meridian bank a.d. Novi Sad – by 66), while 26 banks increased their staff numbers (most of all ProCredit Bank a.d. Beograd – by 118 and Raiffeisen banka a.d. Beograd – by 79).

Ownership structure of banks

At the end of September 2007:

- 22 banks were in majority ownership of foreign shareholders,
- 6 banks were in majority ownership of domestic legal and natural persons,
- 8 banks were in majority ownership of the Republic of Serbia.¹

Market share

The table below gives an overview of respective market shares of banks classified by the size of balance sheet total:

Balance sheet total in RSD bln	31 Dec 2005			31 Dec 2006			30 Sep 2007		
	No. of banks	In RSD mln	% share	No. of banks	In RSD mln	% share	No. of banks	In RSD mln	% share
over 100	1	119,423	15.4	4	483,575	41.3	4	550,244	38.8
50–100	3	225,073	29.0	3	183,698	15.7	6	383,626	27.0
10–50	17	326,953	42.2	15	405,223	34.7	16	423,853	29.8
under 10	19	103,964	13.4	15	96,775	8.3	10	62,696	4.4
Total	40	775,413	100.0	37	1,169,271	100.0	36	1,420,419	100.0

Five banks with the largest end-September balance sheet total and ten banks with the largest end-September balance sheet total accounted for 44.1% and 65.7%, respectively, of the overall balance sheet total of the banking sector. HHI of concentration of balance sheet total declined from 592 in the preceding quarter to 569.

As at 30 September 2007, banks in majority foreign ownership accounted for RSD 1,091 billion or 76.8%, banks in majority ownership of the Republic of Serbia for RSD 210 billion or 14.8%, and banks in majority private ownership for RSD 119 billion or 8.4% of banking sector balance sheet total.

Banking sector balance sheet²

As at 30 September 2007, balance sheet total of the banking sector stood at RSD 1,420.4 billion, which is RSD 43 billion or 3% higher than in Q2 2007.

Receivables in respect of approved credits and lending (lending to domestic banks, lending to clients and interest and fees receivable) accounted for the largest part of balance sheet assets of banks (53.5%). Next in size are deposits with the National Bank of Serbia and securities refinancable with the National Bank of Serbia (32.8%)³. Cash and cash equivalents made up 5.6% of balance sheet assets of the banking sector.

¹ Banks in which the RS is the largest, majority or individual, direct or indirect, shareholder.

² Balance sheet items have been derived from the aggregate KNJBIFO form for the banking sector according to final entries for 2005 and 2006 and data as at 30 September 2007. For analytical purposes and for the sake of data comparability, balance sheet items for 31 December 2005 have been disclosed in accordance with new balance sheet forms.

³ Rise in this item in 2006 resulted from the transfer (in line with the new balance sheet forms) of NBS lending under repo transactions (RSD 144.9 billion.) from item Lending to banks to item Deposits with the central bank.

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In RSD million

	31 Dec 2005		31 Dec 2006		30 Sep 2007		Growth index Q3/Q2 2007	Growth index for the first 9 months of 2007	Growth index for 2006
	Amount	Share in %	Amount	Share in %	Amount	Share in %			
ASSETS									
Cash and cash equivalents	72,781	9.4	77,815	6.7	79,104	5.6	65	102	107
Deposits with the central bank and securities refinaceable with the central bank	150,827	19.5	406,735	34.8	466,422	32.9	110	114	270
Interest and fees receivable	3,197	0.4	4,347	0.4	5,958	0.4	108	137	136
Lending to domestic banks	33,206	4.3	32,415	2.8	55,767	3.9	94	172	98
Lending to clients	426,528	55.0	545,059	46.6	699,137	49.2	107	128	128
Securities and other tradable investment	9,875	1.3	8,584	0.7	10,336	0.7	98	120	87
Investment in securities held to maturity	8,467	1.1	6,948	0.6	10,361	0.7	107	149	82
Share in capital and other securities available for sale	10,494	1.4	15,284	1.3	10,100	0.7	97	66	146
Fixed assets intended for sale and assets from discontinued operations*			394	0.0	163	0.0	47	41	
Rebate on profit tax*			253	0.0	1,135	0.1	127	431	
Goodwill**				0.0		0.0			
Intangible investments	4,287	0.5	5,907	0.5	6,446	0.5	102	109	138
Investment real estate ***	806	0.1	4,266	0.4	4,158	0.3	97	97	529
Fixed assets	40,579	5.2	47,038	4.0	51,413	3.6	101	109	116
Other assets, prepayments and accrued income	12,844	1.6	11,748	1.0	17,528	1.2	103	149	91
Deferred tax assets	1,522	0.2	2,478	0.2	2,391	0.2	97	96	163
Losses in excess of capital		0.0		0.0		0.0			
TOTAL	775,413	100.0	1,169,271	100.0	1,420,419	100.0	103	121	151
LIABILITIES									
Liabilities to domestic banks	35,803	4.6	63,352	5.4	95,290	6.7	72	150	177
Liabilities to clients	580,715	74.9	817,704	69.9	938,496	66.1	109	114	141
Liabilities in respect of interest and fees	936	0.1	980	0.1	1,763	0.1	170	179	105
Liabilities in respect of securities	7	0.0	10	0.0	12	0.0	300	120	143
Liabilities from profit	201	0.0	196	0.0	233	0.0	82	118	98
Liabilities in respect of current tax on profit			525	0.0	159	0.0	3.180	30	
Liabilities in respect of fixed assets intended for sale and assets from discontinued operations			0	0.0	0	0.0			
Other operating liabilities	7,277	0.9	8,630	0.7	8,321	0.6	17	96	119
Provisioning	7,320	0.9	9,376	0.8	10,800	0.8	114	115	128
Other liabilities, accruals and deferred income****	16,973	2.2	51,511	4.4	75,218	5.3	114	146	303
Deferred tax liabilities	368	0.0	699	0.1	686	0.0	98	98	190
LIABILITIES	649,600	83.8	952,983	81.5	1,130,978	79.6	101	118	147
Capital	125,813	16.2	216,288	18.5	289,441	20.4	111	133	172
equity and other capital ****	106,984	13.8	182,562	15.6	241,320	17.0	113	132	171
reserves	19,168	2.5	30,464	2.6	42,584	3.0	100	139	159
accumulated profit/loss	-339	0.0	3,262	0.3	5,537	0.4	149	169	-
TOTAL	775,413	100.0	1,169,271	100.0	1,420,419	100.0	103	121	151
OFF-BALANCE SHEET ITEMS	726,007		1,163,308		1,531,128		106	131	160

* New items.

** Until 31 December 2006 included in item Intangible investment.

*** Until 31 December 2006 included in item Fixed assets.

**** Until 31 December 2006 item Other "capital" – non-operating was disclosed within Other liabilities, accruals and deferred income. As new balance sheet forms envisage that the above item be disclosed within item Equity and other capital, balances for 31 December 2005 were also transferred for analytical purposes.

Borrowed sources of financing made up 79.6% of the banking sector balance sheet liabilities, while capital or own sources of financing accounted for 20.4%. Deposit potential accounted for the largest portion of borrowed sources, with 59.4% share in total liabilities.

Bank capital reached RSD 289 billion (rising by 33.8% on end-2006 and by 11.1% during Q3). Within capital, equity and other capital stood at RSD 241 billion, which is 12.6% higher than at end-Q2.

Off-balance sheet items of banks reached RSD 1,531 billion, having risen by RSD 100 billion relative to end-Q2. The largest individual off-balance sheet item was *Other off-balance sheet assets*,⁴ which made up 50.8% of all off-balance sheet items. Second in size was item *Receivables in respect of bonds issued against foreign currency savings*, which accounted for 15.8% of total off-balance sheet items.

Lending activity

The table below gives an overview of the composition and developments in bank lending:

In RSD million

Sector	31 Dec 2005		31 Dec 2006		30 Sep 2007		Growth index Q3/Q2 2007	Growth index for the first 9 months of 2007	Growth index for 2006
	Amount	Share in %	Amount	Share in %	Amount	Share in %			
ENTERPRISES	281,855	64.8	322,972	59.2	402,256	57.2	105	125	115
HOUSEHOLDS	124,651	28.7	195,873	35.9	282,440	40.2	112	144	157
Housing construction	23,289	5.4	47,334	8.7	74,934	10.7	119	158	203
PUBLIC SECTOR	23,812	5.5	21,644	4.0	13,580	1.9	98	63	91
SCG	981	0.2	220	0.0	43	0.0	21	20	22
Republic of Serbia	20,683	4.8	16,693	3.1	7,447	1.1	89	45	81
Local government	2,148	0.5	4,731	0.9	6,090	0.9	116	129	220
OTHER FINANCIAL ORGANIZATIONS	444	0.1	756	0.1	814	0.1	62	108	170
NON-PROFIT INSTITUTIONS	3,765	0.9	4,236	0.8	4,005	0.6	101	95	112
TOTAL	434,527	100.0	545,481	100.0	703,095	100.0	107	129	125

Lending activity of banks rose by RSD 48.3 billion or 7.4% in Q3 2007. Relative to end-2006, credits went up by RSD 157.6 billion or 28.9%.

Lending to enterprises (57.2%) and households (40.2%) dominate in the composition of lending. As lending to households rose most in both relative (12.4%) and absolute terms (RSD 31.2 billion), its share in overall lending activity climbed from 38.4% to 40.2%. In the course of 2007, lending to households increased by RSD 86.6 billion or 44.2%.

⁴ Received guarantees and other warranties, funds from custody operations and other off-balance sheet assets.

Five banks with the largest amount of approved credits and ten banks with the largest amount of approved credits accounted for 43.6% and 65.8%, respectively, of total lending activity of the banking sector. HHI of credit concentration equalled 559.

Deposit activity

The table below gives a breakdown of deposits by sector:

In RSD million

Sector	31 Dec 2005			31 Dec 2006			30 Sep 2007			Growth index Q3/Q2 2007	Growth index for the first 9 months of 2007	Growth index for 2006
	dinars	foreign currency	total	dinars	foreign currency	total	dinars	foreign currency	total			
Total deposits	142,211	342,472	484,683	227,382	438,908	666,290	283,342	560,870	844,212	108	126	137
Banks	7,315	64,964	72,279	25,102	73,122	98,224	32,431	83,830	116,261	82	118	136
Public enterprises	18,468	13,058	31,526	24,619	9,402	34,021	26,077	8,737	34,814	133	102	108
Other enterprises	65,934	53,928	119,862	105,344	72,489	177,833	128,791	101,055	229,846	118	129	148
Public sector	14,082	946	15,028	21,103	723	21,826	34,106	708	34,814	117	159	145
SCG	284	401	685	226	32	258	43	0	43	11	16	38
RS	2,370	506	2,876	6,778	682	7,460	19,281	673	19,954	129	267	259
Local govt.	11,428	39	11,467	14,099	9	14,108	14,781	36	14,817	107	105	123
Other clients	9,193	3,324	12,517	11,507	2,362	13,869	13,690	3,758	17,448	123	125	111
Foreign legal entities and natural persons	1,578	16,334	17,912	2,736	19,639	22,375	2,681	26,558	29,239	114	130	125
Households	22,268	190,025	212,293	33,523	260,746	294,269	42,269	336,059	378,328	109	128	139
Other	3,372	-107	3,265	3,448	425	3,873	3,296	283	3,579	92	92	122

The largest percentage of deposits were household deposits (44.8%), followed by enterprise deposits (31.3%) and bank deposits (13.8%).

Foreign currency deposits made up 66.4% and dinar deposits 33.6% of total deposits. For the first time, the share of short-term time deposits (46.3%) exceeded that of demand deposits (45.6%).

Q3 deposit potential growth of RSD 61.8 billion or 7.9% was almost entirely driven by foreign currency deposits which rose by 12.4%.

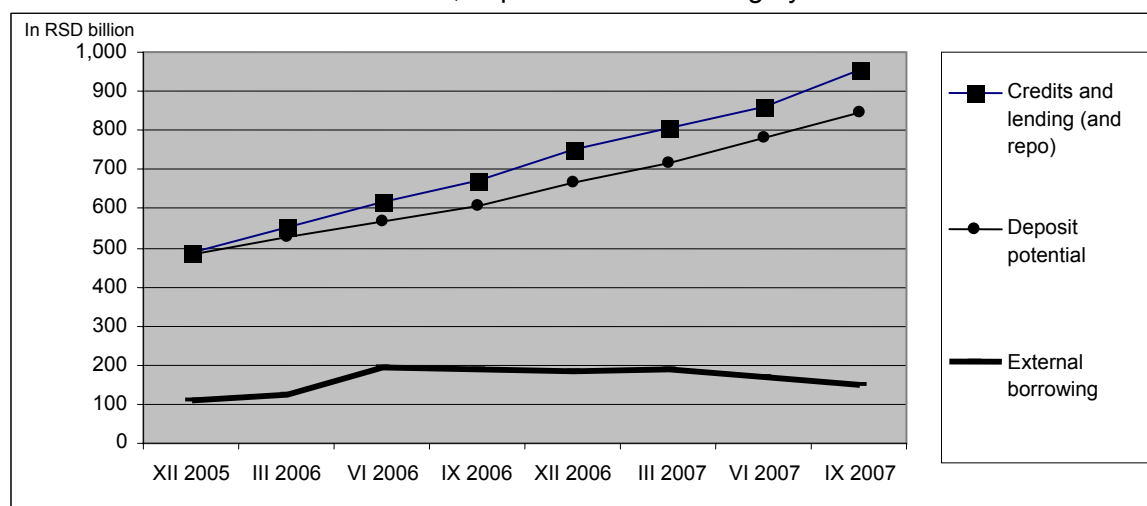
Breakdown by sector shows that deposits of enterprises and household deposits recorded the strongest growth in Q3 2007 – by RSD 43.9 billion or 19.9% and RSD 32.2 billion or 9.3%, respectively.

Five banks with the largest amount of deposits and ten banks with the largest amount of deposits accounted for 46.7% and 67.5%, respectively, of total banking sector deposits. HHI of deposit concentration stood at 628 and was 6 units lower than in Q2. It may be concluded that deposit concentration is declining mildly.

External borrowing by the banking sector

Total external borrowing by the banking sector (credits from foreign banks and foreign legal entities and natural persons) amounted to RSD 149.2 billion. This is entirely foreign currency borrowing and 95.5% of it matures in over one year. In addition, 30% of total external borrowing refers to foreign legal and natural persons and 67% to foreign banks. During Q3 2007, external credits of banks declined by RSD 19.0 billion (11.3%), and their share in overall balance sheet liabilities of the banking sector fell from 12.2% (30 June 2007) to 10.5%.

Chart 1: Credits*, deposits and borrowing by banks



* Including repo investment by the NBS.

Banking sector risks

1. Credit risk

1.1. Quality of balance and off-balance sheet assets

In order to ensure adequate and efficient risk management by banks, in its Decision on the Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items the NBS prescribed that banks should classify all receivables that carry credit risk into five categories on a quarterly basis, depending on the assessed level of collectibility of receivables and financial standing of the borrower. This means that banks are to classify receivables that constitute risk-weighted balance sheet and off-balance sheet assets (hereinafter: BA and OA), i.e. not only credits but also other items of balance sheet assets and certain off-balance sheet items, as defined in the above Decision.

The table below gives an overview of the quality of banking sector assets, as defined above, on 30 September 2007.

In RSD million

		As at	A+B	C + D + E	TOTAL
Total BA and OA	1	30 Sep 07			3.062.654
Gross risk-weighted assets	2	30 Sep 07	874.624	376.765	1.251.389
Share in gross risk-weighted assets	3	30 Sep 07	69,9%	30,1%	100,0%
Reductions (total)	4=5+6+7	30 Sep 07	311.062	199.776	510.838
collateral*	5	30 Sep 07	286.815	105.747	392.562
provisioning against income	6	30 Sep 07	9.532	87.692	97.224
provisioning against capital	7	30 Sep 07	14.715	6.337	21.052
Net risk-weighted assets	8=2-4	30 Sep 07	563.562	176.989	740.551
Share in net risk-weighted assets	9	30 Sep 07	76,1%	23,9%	100,0%

* Reductions do not represent the total value of collateral, but only a part of such value, in line with the prescribed conversion factor which is used as the basis for calculating provisions for potential losses.

Overall balance sheet assets and off-balance sheet items came to RSD 3,064,035 million on 30 September 2007, of which RSD 1,251,389 million or 41% referred to gross risk-weighted assets (balance sheet assets and off-balance sheet items). In Q3, the share of gross risk-weighted assets in categories C, D and E rose from 28.8% in Q2 to 30.1%.

If collaterals that serve as security are taken into account, receivables classified in categories C, D and E accounted for RSD 105.747 million. In order to safeguard against potential losses in respect of receivables from borrowers classified in categories C, D and E, banks provisioned a total of RSD 94,029 million against their income and capital. Thus, taking into account the above items, the share of net risk-weighted BA and OA classified in categories C, D and E in net risk-weighted BA and OA came to 23.9%, as opposed to the 21.4% recorded at end-Q2.

1.2. Non-performing loans (NPL)

According to the Credit Bureau's⁵ data, the balance of debt in respect of bank credits⁶ and overdue obligations (in excess of 90 days) in 2007 is as follows:

In RSD million

	Outstanding debt	Default in excess of 90 days		Share of total loans in default in outstanding debt	Share of the amount of default in outstanding debt
		Total loans	Amount in default		
1	2	3	4	5=3/2	6=4/2
31 Mar 2007	660,921.26	29,920.17	21,462.73	4.53	3.25
30 Jun 2007	749,173.13	35,136.20	24,435.84	4.69	3.26
30 Sep 2007	809,418.81	42,054.16	27,175.11	5.20	3.36

⁵ Of the Association of Serbian Banks.

⁶ Total approved loans (gross, before deduction of loan impairment allowances) with overdue interest and fees for legal entities and accrued interest and fees for natural persons.

The National Bank of Serbia conducted a survey on the level of non-performing loans (NPL⁷) on the sample of 9 leading banks in the Serbian banking sector (accounting for 62% of total balance sheet assets and 65% of total lending to households as at 30 September 2007). Findings of the survey, i.e. the share of NPLs in total loans (net, after deduction of loan impairment allowances), are shown in the table below.

In %

	31 Dec 2006	30 June 2007	30 Sep 2007
Total loans	4.12	3.45	3.37
Enterprises	5.57	4.86	4.97
Households	1.77	2.00	1.75

2. Liquidity risk

The table below gives an overview of daily liquidity ratios of banks as at 28 September 2007:

In RSD thousand

Banks	Gyro-account balances	Calculated required reserves	Difference (2-3)	Deposited excess liquidity	Liquidity loans against collateral of securities
Total in RS	22,219,161	31,837,979	-9,618,818	19,380,500	-

Of the total number of banks, 23 banks used required reserve assets in the amount of RSD 12,473 million or 39.2% of total calculated required reserves of such banks. No bank used liquidity loans.

During the quarter under review, liquidity ratio of individual banks remained within prescribed limits.

3. Foreign exchange risk

Analysis of foreign currency positions at the level of the banking sector, as at 28 September 2007, shows that total open foreign currency position was RSD 45.0 billion, which is RSD 3.4 billion higher than at end-Q2⁸. Exposure to the foreign exchange risk increased compared to the preceding quarter: foreign exchange risk ratio rose from 19.0% in Q2 to 19.7% in Q3.

In RSD million

Open position in EUR		Open position in USD		Open position in CHF		Open position in other currencies		Open position in gold		Total open position		Total open fcy position
long	short	long	short	long	short	long	short	long	short	long	short	
33,138	5,665	3,441	443	1,001	504	697	29	51	-	38,327	6,641	44,969

⁷ Total loan (net, after deduction of loan impairment allowances) where the borrower is defaulting on the repayment of a portion of interest or principal for more than 90 days.

⁸ All the ratios are annualized.

Capital adequacy

Regulatory capital of banks rose in Q3 by RSD 8.9 billion or 4.0% mainly due to the RSD 21.7 billion or 10.3% increase in core capital. Within core capital, equity capital rose by RSD 15.8 billion or 8.7%, issue premium by RSD 11.2 billion or 37.5%, while uncovered losses in the current year by RSD 4.8 billion or more than 4 times.

In compliance with regulations, banks are required to maintain their capital adequacy ratio at a level of not less than 12% of risk-weighted assets.

The table below shows the value of the capital adequacy ratio of banks at the end of Q3 2007:

Capital adequacy ratio	Number of banks	Share in overall balance sheet total (in %)
Under 20%	8	35,5
From 20 to 30%	12	36,7
From 30 to 50%	11	26,0
Over 50%	5	1,8
Total	36	100,0

Average capital adequacy ratio for the banking system equalled 24.8%.

Banking sector profitability indicators

The table below gives an overview of profitability indicators:

Banking sector	PROFITABILITY INDICATORS ⁹ (%)				Financial result (in RSD thousand)
	Gross incomes/ balance sheet assets	Net interest income/ balance sheet assets	Operating expenses/ balance sheet assets	Operating expenses/net income from interest and fees	
31 Dec 2005	33.63	4.47	5.55	80.95	7,271,925
31 Dec 2006	39.46	4.13	5.20	86.30	16,530,318
30 Sep 2007	33.89	4.28	4.66	75.92	15,613,851

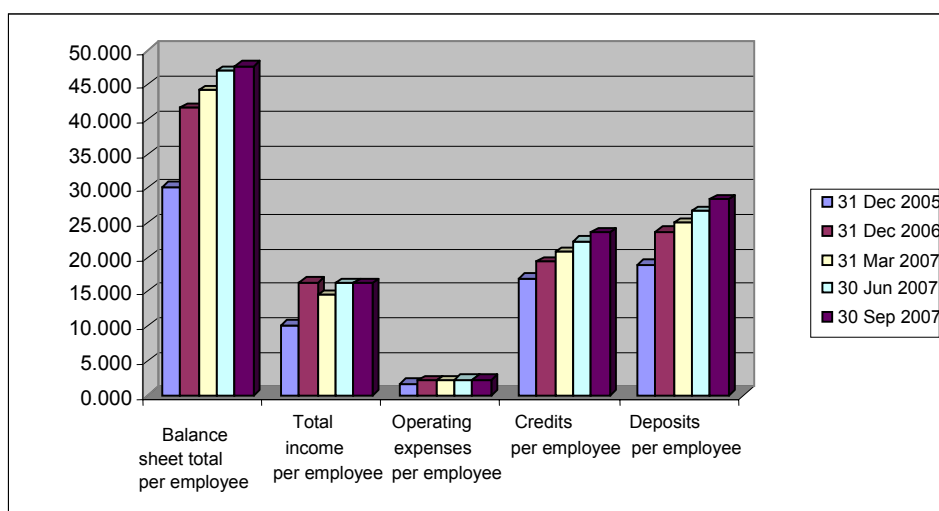
Banking sector	ROA (%)	ROE (%)	NIM (%)
31 Dec 2005	1.13	6.46	7.66
31 Dec 2006	1.70	9.67	7.46
30 Sep 2007	1.61	8.23	6.89

⁹ All indicators are annualized.

Banking sector productivity indicators

Values of balance sheet assets, deposits and credits per employee, as well as total income and operating expenses per employee increased in Q3 2007. Overview of the above indicators is given in the chart below.

Chart 3: Productivity indicators



Aggregate report on income and expenses

Item	In RSD million		
	1 Jan – 31 Dec 2005	1 Jan – 31 Dec 2006	1 Jan – 30 Sep 2007
NET PROFIT/LOSS IN RESPECT OF INTEREST	34,654	48,245	45,604
Interest income	49,015	76,937	76,769
Interest expenses	14,361	28,692	31,165
NET PROFIT/LOSS IN RESPECT OF FEES AND CHARGES	18,469	22,178	19,822
Income from fees and charges	23,478	28,372	25,104
Expenses for fees and charges	5,009	6,194	5,282
NET PROFIT/LOSS IN RESPECT OF INTEREST, FEES AND CHARGES	53,123	70,423	65,426
NET PROFIT FROM SALE OF SECURITIES	1,592	981	640
Profit in respect of securities	1,622	1,766	666
Losses in respect of securities	30	785	26
NET INCOME/EXPENSES FROM EXCHANGE RATE GAINS/LOSSES	9,978	10,543	7,701
Exchange rate gains	122,529	274,179	186,963
Exchange rate losses	112,551	263,636	179,262
INCOME FROM DIVIDENDS AND STAKES	243	185	214
OTHER OPERATING INCOME	57,372	65,316	43,778
EXPENSES IN RESPECT OF INDIRECT WRITE-OFF OF LENDING AND PROVISIONING	73,396	61,938	52,059
OTHER OPERATING EXPENSES	47,061	64,174	51,261
NET INCOME/EXPENSES IN RESPECT OF CHANGE IN THE VALUE OF ASSETS AND LIABILITIES	5,425	- 4,805	1,175
Income from change in the value of assets and liabilities	6,500	14,602	27,487
Expenses from change in the value of assets and liabilities	1,075	19,407	26,312
PROFIT/LOSS FROM REGULAR OPERATIONS	7,275	16,530	15,614
NET EXTRAORDINARY INCOME/EXPENSES	-3		
Extraordinary income*	10		
Extraordinary expenses*	13		
Profit from discontinued operations**			
Losses from discontinued operations**			
PRE-TAX PROFIT/LOSSES	7,272	16,530	15,614

* Items abolished from balance sheet forms as of 31 December 2006.

** Newly introduced items.

In the first nine months of 2007, the banking sector recorded pre-tax profit of RSD 15,614 million. Eleven banks operated with losses (three more than a quarter earlier).

Income continued growing at a slower pace than expenses (52.5% and 54.6%, respectively). As income and/or expenses from change in the value of assets and liabilities recorded the strongest growth (income nearly doubled), their share in the total also increased (7.6%).

Though still positive, the net effect of income and expenses in respect of exchange rate gains/losses was half the value recorded in Q2 - RSD 3,141 million. As a result, their share in total income and expenses fell below 52%.

The share of income from interest and fees in the first nine months of 2007 equalled 28.2%, while income from cancelling unused write-off of lending and provisioning accounted for 11.5% of total income. On the expenses side, expenses in respect of interest and fees accounted for 10.5%, indirect write-off of lending and provisioning for 15.1%, and operating expenses for 14.4%.

II. Regulatory activity of the National Bank of Serbia

In Q3 2007, the National Bank of Serbia enacted the following pieces of secondary legislation (decisions and guidelines) coming under its regulatory remit (in the field of banking supervision):

- ***Decision on Implementing Provisions of the Law on Banks Relating to Consolidated Supervision of a Banking Group*** setting out the conditions and manner in which the National Bank of Serbia is to implement provisions of the Law on Banks relating to consolidated supervision of a banking group, risk management at the level of the banking group and submission of consolidated financial reports.
- ***Decision on the Manner and Conditions of Identification, Monitoring and Management of Bank Compliance Risk***, defining the compliance risk as a risk which arises from the bank's non-conformance with the relevant law, secondary legislation, internal policy acts, anti-money laundering and terrorism financial procedures, professional rules, good business practices and the bank's ethical code. Compliance risk encompasses the risk of regulatory sanctions, risk of financial loss and reputation risk. As stipulated by the Decision, banks are required to set up a separate organizational unit in charge of compliance risk control.
- ***Decision Amending Decision on Risk Management***, introducing exemption from the exposure limit to a person related with the bank. Henceforth, a member of the banking group which is included in the consolidated financial statements by applying the full consolidation method shall not be regarded as a person related with the bank, and is, as such, exempt from the exposure limit.
- ***Guidelines Amending Guidelines on Reporting Requirements for Banks***, introducing additional reports for banks (Overview of bank investment in financial

sector entities, Report on the new issue of shares and Report on increase/decrease in bank's share capital), and setting out reporting on a consolidated basis in more detail.

- ***Decision Amending and Supplementing Decision on the Reconciliation of Gross Household Lending against Share Capital of Banks***, abolishing the exemption of household loans for housing construction, supported by the RS Government's program, from gross lending; prohibiting approval of cash loans with a repayment period longer than 24 months, and setting out the obligation for banks to keep the gross household lending to share capital ratio at or below 150% beginning from 31 December 2007 (as opposed to earlier 200%). The Decision was also accompanied by ***Guidelines Amending Guidelines for the Implementation of Decision on the Reconciliation of Gross Household Lending against Share Capital of Banks***.
- ***Guidelines on Data to Be Submitted by Banks to the National Bank of Serbia for the Purpose of their Inclusion in the NBS Credit Information System***, prescribing the obligation for banks to record, collect, process and submit data on balance sheet receivables and off-balance sheet items, data on the borrower's core activity and category in which such receivables are classified (per borrower and per related borrowers) if they amount to at least RSD 5 million in total (per each borrower, and/or total per related borrowers).