

# **BANKING SUPERVISION**

**Third Quarter Report 2008**

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## I. Banking sector in Q3 2008

### Structure of the Serbian banking sector as at 30 September 2008

#### Number of banks

Up by one on the previous quarter, 35 banks operated in the Serbian market at end-Q3 2008.

**Table 1 – Number of banks**

	31 Dec 2006	31 Dec 2007	30 Sep 2008
Number of banks	37	35	35

#### Network of banks

In late September 2008, the overall banking network included 2,630 business units, branches, branch offices, teller units, agencies and exchange bureaus, which is an increase by 195 on end-Q1 2008.

**Table 2 – Network of banks**

Number of	31 Dec 2006	31 Dec 2007	30 Sep 2008
business units	82	80	67
branches	413	519	586
branch offices	1,387	1,544	1,697
teller units	276	258	248
agencies		33	31
exchange bureaus		1	1
<b>Total:</b>	<b>2,158</b>	<b>2,435</b>	<b>2,630</b>

#### Banking sector employment

In Q3, total banking sector employment in Serbia was 32,010, which is an increase by 679 on end-Q2 2008.

Employment declined in eight banks (primarily in OTP banka a.d. Novi Sad, by 35), while 27 banks increased their staff numbers (most notably Alpha Bank a.d. Beograd - by 131, KBC banka a.d. Beograd - by 76 and ProCredit Bank a.d. Beograd – by 66).

### Bank ownership structure

At end-June 2008:

- 21 banks were in majority foreign ownership,
- 6 banks were in the majority ownership of domestic natural persons and legal entities, and
- 8 banks were in the majority ownership of the Republic of Serbia.<sup>1</sup>

### Market share

The table below shows market shares of banks in terms of their balance sheet totals:

**Table 3 – Market shares of groups of banks**

Balance sheet total in RSD billion	31 Dec 2006			31 Dec 2007			30 Sep 2008		
	No. of banks	in RSD mln	% share	No. of banks	in RSD mln	% share	No. of banks	in RSD mln	% share
over 100	4	483,575	41.3	4	632,560	40.5	5	774,682	45.2
50-100	3	183,698	15.7	8	525,822	33.7	8	571,352	33.3
10-50	15	405,223	34.7	15	357,301	22.9	14	326,813	19.1
under 10	15	96,775	8.3	8	46,139	2.9	8	41,086	2.4
<b>Total</b>	<b>37</b>	<b>1,169,271</b>	<b>100.0</b>	<b>35</b>	<b>1,561,822</b>	<b>100.0</b>	<b>34</b>	<b>1,713,933</b>	<b>100.0</b>

A group of five banks with the largest end-Q3 balance sheet total and a group of ten banks with the largest end-Q3 2008 balance sheet total accounted for 45.2% and 68.7%, respectively, of the overall balance sheet total of the banking sector. HHI of concentration of balance sheet total (617) shows no major changes relative to a quarter earlier (621).

As at 30 September 2008, banks in majority foreign ownership accounted for RSD 1,286.9 billion or 75.1%, banks in majority ownership of the Republic of Serbia for RSD 265.5 billion or 15.5%, and banks in majority private ownership for RSD 161.5 billion or 9.4%, of the banking sector balance sheet total.

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

## Banking sector balance sheet

As at 30 September 2008, balance sheet total of the banking sector stood at RSD 1,713.9 billion, which is RSD 64.9 billion or 3.9% higher than in Q2 2008 and RSD 152.1 billion or 9.7% higher than at end-2007.

*Loans, advances and deposits* accounted for the largest part of balance sheet assets of banks (54.3%). Next in size were *callable credits and deposits* (29.6%). *Cash and cash equivalents* made up 6.4% of the banking sector balance sheet assets, while the share of all other items was below 4%.

**Table 4 – Banking sector balance sheet <sup>2</sup>**

(in RSD million)

	31 Dec 2006		31 Dec 2007		30 Sep 2008		Growth index for Q3/Q2 2008	Growth index for 9 months of 2008	Growth index for 2007
	Amount	Share in %	Amount	Share in %	Amount	Share in %			
<b>AKTIVA</b>									
Cash and cash equivalents	72,054	6.2	80,274	5.1	110,222	6.4	81	137	111
Callable deposits and credits	415,733	35.5	551,474	35.3	506,990	29.6	106	92	133
Loans, advances and deposits	538,905	46.1	774,293	49.6	929,656	54.3	109	120	144
Securities	26,394	2.3	19,344	1.2	24,258	1.4	114	125	73
Equity investments	4,368	0.4	6,247	0.4	5,521	0.3	92	88	143
Other lending	34,744	3.0	45,397	2.9	41,437	2.4	67	91	131
Interest, fees and commission receivables, change in fair value of derivatives and other receivables	5,032	0.4	6,567	0.4	9,925	0.6	115	151	131
Intangible assets	5,837	0.5	6,054	0.4	5,883	0.3	91	97	104
Property, plant and equipment and investment property	50,453	4.3	56,969	3.7	60,376	3.5	104	106	113
Non-current assets held for sale and discontinued operations	394	0.0	334	0.0	450	0.0	149	135	85
Deferred tax assets	2,478	0.2	2,527	0.2	2,452	0.2	97	97	102

<sup>2</sup> The following regulations came into force on 1 July 2008: new *Chart of Accounts and Content of Accounts within the Chart of Accounts for Banks*, *Guidelines on the Obligation and Methodology of Recording, Compiling, Processing and Delivery of Data on the Stock and Structure of Lending, Receivables and Liabilities of Banks*, and *Rules on the Forms and Content of Items in Financial Statement Forms to be Completed by Banks*. The asset-liability mismatch in the periods prior to 1 July 2008 is due to the exclusion of some balance sheet items and their removal off-balance.

	31 Dec 2006		31 Dec 2007		30 Sep 2008		Growth index for Q3/Q2 2008	Growth index for 9 months of 2008	Growth index for 2007
	Amount	Share in %	Amount	Share in %	Amount	Share in %			
Other assets	12,787	1.1	12,325	0.8	16,763	1.0	99	136	96
Losses in excess of capital	0	0.0	0	0.0	0	0.0			
<b>TOTAL</b>	<b>1,169,179</b>	<b>100.0</b>	<b>1,561,805</b>	<b>100.0</b>	<b>1,713,933</b>	<b>100.0</b>	<b>104</b>	<b>110</b>	<b>134</b>
<b>LIABILITIES</b>									
Transaction deposits	225,053	19.3	300,530	19.2	279,897	16.3	94	93	134
Other deposits	441,230	37.7	659,613	42.2	703,433	41.1	102	107	149
Borrowings	214,774	18.4	169,555	10.9	178,178	10.4	129	105	79
Liabilities on securities	10	0.0	2,596	0.2	3,958	0.2	144	152	25960
Interest, fees and commissions payable and change in fair value of derivatives	980	0.1	2,786	0.2	1,013	0.1	52	36	284
Provisions and tax liabilities	9,949	0.8	11,967	0.8	10,886	0.6	97	91	120
Liabilities from profit	720	0.0	647	0.0	477	0.0	118	74	90
Liabilities on non-current assets held for sale and discontinued operations	0	0.0	0	0.0		0.0			
Deferred tax liabilities	699	0.1	558	0.0	606	0.0	99	109	80
Other liabilities	59,481	5.1	85,063	5.5	117,527	6.9	106	138	143
<b>LIABILITIES</b>	<b>952,895</b>	<b>81.5</b>	<b>1,233,314</b>	<b>79.0</b>	<b>1,295,975</b>	<b>75.6</b>	<b>104</b>	<b>105</b>	<b>129</b>
<b>Capital</b>	<b>216,288</b>	<b>19.5</b>	<b>328,493</b>	<b>21.0</b>	<b>417,958</b>	<b>24.4</b>	<b>105</b>	<b>127</b>	<b>152</b>
Share capital and other capital	182,562	15.6	272,846	17.5	329,471	19.2	102	121	149
Reserves	30,464	2.6	47,636	3.0	63,084	3.7	101	132	156
Accumulated gains/losses	3,262	0.3	8,011	0.5	25,403	1.5	199	317	246
<b>TOTAL</b>	<b>1,169,184</b>	<b>100.0</b>	<b>1,561,807</b>	<b>100.0</b>	<b>1,713,933</b>	<b>100.0</b>	<b>104</b>	<b>110</b>	<b>134</b>

*Borrowings* accounted for 75.6% of the banking sector balance sheet liabilities, and capital for the remaining 24.4%. Borrowed funds consisted primarily of *other deposits*, *transaction deposits* and *loans, advances and deposits* (41.1%, 16.3% and 10.4% of total liabilities, respectively).

Bank capital reached RSD 418 billion (rising by RSD 20.4 billion or 5.1% on Q2 2008 and by RSD 89.5 billion or 27.2% on end-2007). *Share capital and other capital* increased by 2.3% on Q2 2008, amounting to RSD 329.5 billion.

Off-balance sheet items of banks came to RSD 2,053.0 billion, up by RSD 93.5 billion on Q2 2008. During 2008, off-balance sheet items increased by

RSD 473.3 billion or 30.0%. The largest single off-balance component were *other off-balance sheet assets*<sup>3</sup> (58.5%), followed by *guarantees and sureties* (18.3%).

### Lending activity

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

**Table 5 – Bank lending**

(in RSD million)

Sector	31 Dec 2006		31 Dec 2007		30 Sep 2008		Growth index for Q3/Q2 2008	Growth index for 9 months of 2008	Growth index for 2007
	Amount	Share in %	Amount	Share in %	Amount	Share in %			
ENTERPRISES	322,972	59.2	437,387	57.5	584,079	62.4	115	134	135
HOUSEHOLDS	195,873	35.9	302,543	39.8	318,580	34.0	94	105	155
housing construction	47,334	8.7	89,434	11.8	128,231	13.7	113	143	189
PUBLIC SECTOR	21,644	4.0	13,928	1.8	14,820	1.6	101	106	64
Serbia&Montenegro	220	0.0	1,0	0.0	0,0	0.0	0	0	0
Republic of Serbia	16,693	3.1	7,035	0.9	6,359	0.7	86	90	42
Local government	4,731	0.9	6,892	0.9	8,461	0.9	116	123	146
OTHER FINANCIAL ORGANISATIONS	756	0.1	1,219	0.1	11,899	1.3	435	976	161
NONPROFIT INSTITUTIONS	4,236	0.8	5,828	0.8	6,351	0.7	90	109	138
<b>TOTAL</b>	<b>545,481</b>	<b>100.0</b>	<b>760,905</b>	<b>100.0</b>	<b>935,729</b>	<b>100.0</b>	<b>107</b>	<b>123</b>	<b>139</b>

In Q3 2008 bank lending rose by RSD 65.0 billion or 7.5%.

In terms of sectoral distribution, lending to enterprises (62.4%) was dominant. The increase in lending to enterprises by RSD 75.3 billion accounted for the bulk of growth in lending in Q3. Next in size was lending to households (34.0%). By contrast to 2007, when nominal growth in lending to enterprises and households was broadly balanced (RSD 114.4 billion and RSD 106.7 billion, respectively), lending to enterprises in the nine months of 2008 increased by RSD 146.7 billion and lending to households by mere RSD 16.0 billion.

The share of top five and top ten banks in terms of the value of approved loans in total bank lending was 44.5% and 66.9%, respectively. HHI of credit concentration equalled 608.

<sup>3</sup> Received guarantees and other sureties, funds from custody operations and other off-balance sheet assets.

## Deposit activity

The table below gives a breakdown of deposits by sector:

**Table 6 – Deposit activity of banks**

(in RSD million)

Sector	31 Dec 2006			31 Dec 2007			30 Sep 2008			Growth index for Q3/Q2 2008	Growth index for 9 months of 2008	Growth index for 2007
	dinars	foreign currency	total	dinars	foreign currency	total	dinars	foreign currency	total			
<b>Total deposits</b>	<b>227,382</b>	<b>438,908</b>	<b>666,290</b>	<b>343,997</b>	<b>616,164</b>	<b>960,161</b>	<b>317,490</b>	<b>665,840</b>	<b>983,330</b>	<b>100</b>	<b>102</b>	<b>144</b>
Banks	25,102	73,122	98,224	30,216	93,438	123,654	42,026	58,315	100,341	86	81	126
Public enterprises	24,619	9,402	34,021	31,860	7,826	39,686	26,761	18,668	45,429	101	114	117
Other enterprises	105,344	72,489	177,833	185,090	105,610	290,700	156,853	115,477	272,330	102	94	163
Public sector	21,103	723	21,826	26,552	883	27,435	32,476	1,020	33,496	95	122	126
Foreign legal entities and private individuals	2,736	19,639	22,375	6,427	24,580	31,007	4,276	39,404	43,680	153	141	139
Households	33,523	260,746	294,269	46,781	381,439	428,220	49,951	432,181	482,132	103	113	146
Other	14,955	2,787	17,742	17,071	2,388	19,459	5,146	776	5,922	25	30	110

Household deposits accounted for the largest share of total deposits (49.0%), followed by enterprise deposits (32.3%) and bank deposits (10.2%).

Foreign currency deposits made up 67.7% and dinar deposits 32.3% of total deposits. Demand deposits<sup>4</sup> (53.1%) were dominant, followed by short-term time deposits (42.4%).

Total deposits declined by RSD 1 billion in Q3 2008, while deposits of the banking sector (with domestic and foreign banks) fell by RSD 15.9 billion.

Breakdown by sector shows that household deposits increased most in Q3 2008 - by RSD 15.1 billion or 3.0%.

The share of top five and top ten banks in total banking sector deposits was 49.4% and 72.7%, respectively. HHI of deposit concentration stood at 705 (a marginal change relative to Q2).

During 2008, total deposits increased by RSD 23.2 billion or 2.4%. The increase was particularly pronounced for foreign currency (8.1%) and household deposits (RSD 53.9 billion or 12.6%).

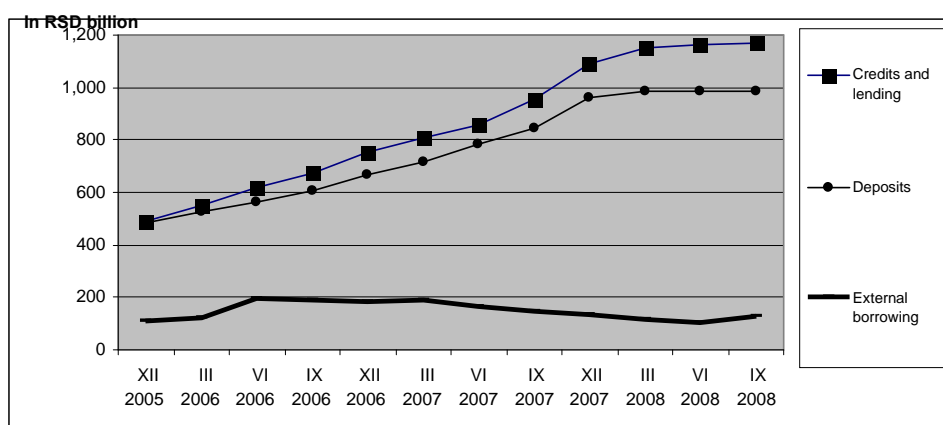
<sup>4</sup> Deposits with no initial maturity, with no set term and up to 14 days.



### External borrowing by the banking sector

Total external borrowing by the banking sector (credits from foreign banks and foreign legal entities and natural persons) came to RSD 130.0 billion and mostly related to borrowing maturing in more than one year (58.3%). Foreign owned banks accounted for 99.0% of total borrowing. During Q3 2008, external credits of banks rose RSD 27.8 billion (27.2%), while their share in total balance sheet liabilities of the banking sector upped from 6.2% to 7.6%. In the first nine months of 2008, external borrowing of the banking sector declined by RSD 3.8 billion.

Chart 1 - Credits<sup>5</sup>, deposits and borrowing by banks



## Banking sector risks

### 1. Credit risk

#### 1.1. Quality of balance sheet and off-balance sheet assets

In order to ensure adequate and efficient risk management by banks, the National Bank of Serbia prescribed in its Decision on the Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items, an obligation for banks to classify on a quarterly basis all receivables that carry credit risk into five categories by the assessed level of their collectibility and financial standing of the borrower. This in effect means that banks are required to classify those receivables that constitute the risk-weighted balance sheet and off-balance sheet assets (hereinafter: BA and OA), which includes not only

<sup>5</sup> Including NBS repo lending.

credits, but other balance sheet assets and certain off-balance sheet items as well, as defined in the above Decision.

The new Decision on the Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items brought some changes to the classification criteria<sup>6</sup> - the most adversely classified assets are now classified in categories D and E. Risk-weighted assets (classified) accounted for 42.9% of gross balance sheet assets and off-balance sheet items.

**Table 7 – Banking sector asset quality**

(in RSD million)

	Gross	Total classified assets	Classified assets		% share of D and E classified assets in total classified assets
			A+B+C	D+E	
Balance sheet assets	1,838,135	1,078,342	914,474	163,868	15.20
Off-balance sheet items	2,052,977	589,815	549,379	40,437	6.86
TOTAL	3,891,112	1,668,157	1,463,853	204,304	12.2

Special reserves for potential losses on classified balance sheet assets and off-balance sheet items totalled RSD 215.3 billion, while balance sheet asset value adjustments and provisioning on off-balance sheet items reached RSD 95.1 billion. At the same time, on- and off-balance sheet facilities in default amounted to RSD 122.4 billion or 7.3% of total classified balance sheet assets and off-balance sheet items.

## 1.2. Non-performing loans (NPLs)

According to the NPL Composition Reports submitted by banks to the National Bank of Serbia, on 30 September 2008 the share of NPLs in total loans approved was 10.18% in gross terms and 4.33% in net terms.

<sup>6</sup> Changes to classification criteria relate to the number of days in default.

SECTOR	Gross NPLs/Gross total loans	Net NPLs/Net total loans
	6.71	0.31
Banks	1.18	0.74
Public enterprises	13.52	5.82
Other enterprises	5.67	2.97
Entrepreneurs	0.81	0.20
Public sector	5.87	2.66
Households	12.91	3.65
Foreign entities	4.38	3.67
Econ.entities&reg.agr.producers	3.52	1.93
Other clients	<b>10.18</b>	<b>4.33</b>
<b>TOTAL</b>		

In terms of household loans, the highest NPL ratio was recorded for other loans and consumer loans (6.92% and 3.88% net, respectively), and the lowest for loans for the performance of other activities and credit card loans (1.43% and 1.66% net, respectively).

According to the Credit Bureau<sup>7</sup> data on the stock of debt on bank credits<sup>8</sup> and overdue obligations (over 90 days), the balance is as follows:

**Table 8 – Overdue obligations (over 90 days)**

(in RSD million)

	Outstanding debt	Default in excess of 90 days		Share of total credits in default in outstanding debt	Share of the amount of default in outstanding debt
		Total credits	Amount in default		
1	2	3	4	5=3/2	6=4/2
31/03/2007	660,921.26	29,920.17	21,462.73	4.53	3.25
30/06/2007	749,173.13	35,136.20	24,435.84	4.69	3.26
30/09/2007	809,418.81	42,054.16	27,175.11	5.20	3.36
31/12/2007	865,448.63	44,213.77	28,121.03	5.11	3.25
31/03/2008	1,008,261.67	44,077.30	27,867.37	4.37	2.76
30/06/2008	1,009,007.15	53,613.47	31,645.65	5.31	3.14
30/09/2008	1,037,147.00	62,267.85	35,337.94	6.00	3.41

Q3 saw deterioration in the collectability of receivables, as well as an increase in the amount of loans in default.

<sup>7</sup> Of the Serbian Banking Association.

<sup>8</sup> Total loans approved (gross, prior to deduction of allowances for impairment) with overdue interest and fees for legal entities and calculated interest and fees for private individuals.

## 2. Liquidity risk

The table below shows daily liquidity ratios of banks as at 30 September 2008:

**Table 10 – Bank liquidity**  
(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	55,131,065	64,696,212	-9,565,147	2,684,500	

Of the total number of banks, 13 banks drew on their required reserve assets in the total amount of RSD 17,917 million or 42.9% of total calculated required reserves of such banks. No bank used liquidity loans.

During the three months under review, liquidity ratios of individual banks stayed within the prescribed limits.

## 3. Foreign exchange risk

The new methodology for the calculation of foreign currency position, i.e. the foreign exchange risk ratio, was applied for the first time in Q3. Namely, total net open foreign currency position now represents the absolute value of total long or total short foreign currency position, depending on which of the two is higher<sup>9</sup>. The foreign exchange risk ratio is calculated by dividing the sum of total net open foreign currency position and the absolute value of net open position in gold with the amount of capital. Comparison of the foreign exchange risk exposure of the banking sector as at 30 June and 30 September 2008 shows that there were no major changes in Q3 in that respect.

On 30 September 2008, total open foreign currency position of the banking sector was RSD 25.5 billion, or RSD 3.5 billion less than at end-Q2 2008. Foreign exchange risk exposure of the banking sector declined from a quarter earlier, and the foreign exchange risk ratio equalled 8.3% (compared to 9.4% in Q2 2008 or 14.8% at end-2007).

<sup>9</sup> The manner of calculating open foreign currency position is defined by the Decision on Capital Adequacy of Banks.

**Table 11 – Foreign exchange risk**  
(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 net open foreign currency position
long	short	long	short	long	short	long	short	long	short	long	short	
18,743	454	3,249	1,397	2,915	1,035	642	384	59	-	25,549	7,355	25,549

### Capital adequacy

Largely as a result of the application of regulations envisaging new calculation methodology, the banking sector capital adequacy ratio declined by 4.8 percentage points from a quarter earlier to 23.3%.

The decline in this ratio was also due to the increase in risk-weighted assets (from RSD 1,086.9 billion to RSD 1,486.2 billion), most notably the increase in credit-risk weighted assets (from RSD 1,057.9 to RSD 1,455.0 billion). Total assets exposed to foreign exchange risk equalled RSD 27.8 billion, and those exposed to other market risks (new component within risk-weighted assets) RSD 3.3 billion.

Regulatory capital of banks went up by RSD 40.3 billion or 13.2%. Such growth was driven by the RSD 43.3 billion or 13.5% increase in core capital resulting from the RSD 36.4 billion or 208.6% growth in reserves allocated from earnings after tax included under core capital for the purpose of allocation of reserves for estimated losses.

Subject to regulations, banks are required to maintain their capital adequacy ratio at no less than 12% of their risk-weighted assets.

The table below shows capital adequacy ratios of banks at end-Q3 2008:

**Table 12 – Capital adequacy ratio by group of banks**

Capital adequacy ratio	Number of banks	Share in balance sheet total (in %)
Under 20%	10	50.6
From 20 to 30%	11	28.9
From 30 to 50%	9	19.0
Over 50%	5	1.5
<b>Total</b>	<b>35</b>	<b>100.0</b>

### Banking sector profitability indicators

The table below gives an overview of profitability indicators:

**Table 13 – Bank profitability**

Banking sector	PROFITABILITY INDICATORS <sup>10</sup> (%)				Financial result (in RSD thousand)
	Gross income/balance sheet assets	Net interest income/balance sheet assets	Operating expenses/balance sheet assets	Operating expenses/net income from interest and fees	
31/12/2006	39.46	4.13	5.20	86.30	16,530,318
31/12/2007	42.31	3.97	4.54	79.09	23,473,323
30/06/2008	55.03	5.32	4.75	65.23	20,888,832
30/09/2008	50.22	5.22	4.65	65.08	33,682,590

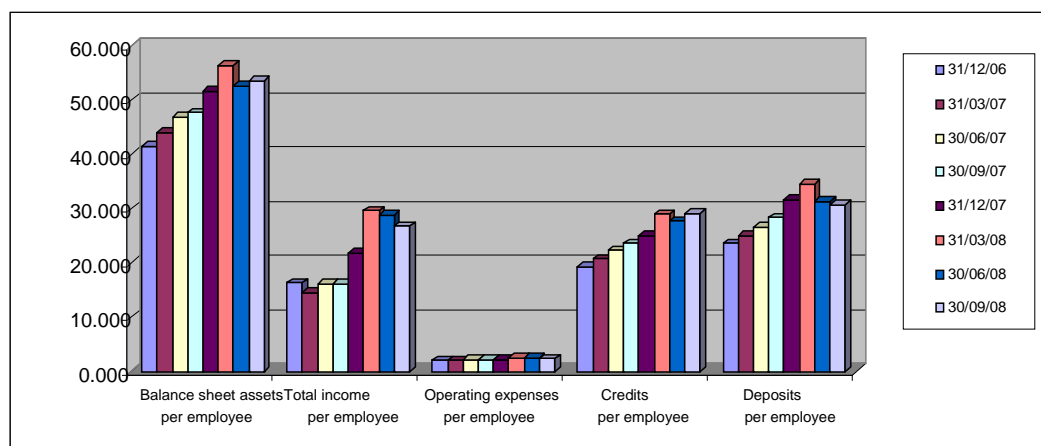
Banking sector	ROA (%)	ROE (%)	NIM (%)
31/12/2006	1.70	9.67	7.46
31/12/2007	1.70	8.54	6.54
30/06/2008	2.60	11.51	7.50
30/09/2008	2.74	12.03	7.49

### Banking sector productivity indicators

Q3 saw a rise in the balance sheet assets and credits per employee indicators. These, and other productivity indicators, are shown in the chart below.

<sup>10</sup> All indicators are annualized.

Chart 2 – Productivity indicators



### Summary statement of income and expenses

In Q3 2008, the banking sector recorded (pre-tax) profits of RSD 33,683 million. A total of 26 banks recorded a positive financial result, while nine operated with losses.

In the first nine months of the year, net effect of exchange rate gains/losses was positive – RSD 21.5 billion. Its share in total income and expenses was around 55% compared to 60% in the previous quarter. The share of expenses in terms of change in the value of assets and liabilities exceeded 15%, while the share of interest and fee income and expenses rose by 1 percentage point, primarily owing to the decline in the share of exchange rate gains/losses.

**Table 14 – Summary statement of income and expenses**  
(in RSD million)

Item	1 Jan-31 Dec 06	1 Jan-31 Dec 07	1 Jan-30 Sep 08
NET INTEREST INCOME/EXPENSES	48,245	63,404	67,101
Interest income	76,937	106,942	110,627
Interest expenses	28,692	43,538	43,526
NET FEES AND COMMISSIONS INCOME/EXPENSES	22,178	27,451	24,720
Fees and commissions income	28,372	34,433	30,581
Fees and commissions expenses	6,194	6,983	5,861
NET INTEREST, FEES AND COMMISSIONS INCOME/EXPENSES	70,423	90,854	91,821
NET INCOME FROM THE SALE OF SECURITIES	981	3,293	1,065
Securities income	1,766	3,295	1,107
Securities expenses	785	2	42
NET EXCHANGE RATE GAINS/LOSSES	10,543	6,959	21,460
INCOME ON DIVIDENDS AND EQUITY INVESTMENTS	185	1,081	156
OTHER OPERATING INCOME	65,316	53,445	63,830
EXPENSES ON INDIRECT WRITE-OFFS AND PROVISIONING	61,938	61,149	71,488
OTHER OPERATING EXPENSES	64,174	72,712	60,959
NET INCOME/EXPENSES ON CHANGE IN THE VALUE OF ASSETS AND LIABILITIES	- 4,805	1,702	- 12,202
Income on change in the value of assets and liabilities	14,602	64,271	83,207
Expenses on change in the value of assets and liabilities	19,407	62,569	95,409
REGULAR OPERATING INCOME/EXPENSES	16,530	23,473	<b>33,683</b>
NET EXTRAORDINARY INCOME/EXPENSES			
Extraordinary income*			
Extraordinary expenses*			
Profit from discontinued operations**	0	0	0
Losses from discontinued operations**	0	0	0
<b>PRE-TAX PROFIT/LOSSES</b>	<b>16,530</b>	<b>23,473</b>	<b>33,683</b>

\* items abolished in balance sheet presentations effective as of 31 December 2006

\*\* newly-introduced items



## **II. Regulatory activity of the National Bank of Serbia**

In Q3 2008, the National Bank of Serbia neither amended current nor issued any new regulations in the field of banking supervision.