

# **BANKING SUPERVISION**

**Second Quarter Report 2008**

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## I. Banking sector in the second quarter of 2008

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

#### Number of banks

At end-Q2 2008, there were 34 banks operating in the Serbian market, the same as at end-Q1.

**Table 1 – Number of banks**

	31 Dec 2006	31 Dec 2007	30 Jun 2008
Number of banks	37	35	34

#### Network of banks

In late June 2008, the overall banking network included a total of 2,564 business units, branches, branch offices, teller units, agencies and exchange bureaus, which is an increase by 78 on end-Q1 2008.

**Table 2 – Network of banks**

Description	31 Dec 2006	31 Dec 2007	30 Jun 2008
No. of business units	82	80	70
No. of branches	413	519	567
No. of branch offices	1,387	1,544	1,657
No. of teller units	276	258	238
No. of agencies		33	31
No. of exchange bureaus		1	1
<b>Total:</b>	<b>2,158</b>	<b>2,435</b>	<b>2,564</b>

#### Banking sector employment

In Q2, total banking-sector employment in Serbia was 31,331, which is an increase by 777 from end-Q1 2008.

The number of employees in four banks declined (primarily in Findomestic banka a.d. Beograd, by 10), while in two banks the number of employees remained unchanged and 28 banks increased their staff numbers (primarily ProCredit Bank a.d. Beograd – by 85 and Komercijalna banka a.d. Beograd – by 81).

## Ownership structure of banks

At end-June 2008:

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

## Market share

The table below reveals 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 Jun 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	761,418	46.2
50–100	3	183,698	15.7	8	525,822	33.7	7	484,056	29.4
10–50	15	405,223	34.7	15	357,301	22.9	15	363,332	22.0
under 10	15	96,775	8.3	8	46,139	2.9	7	40,206	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>1,649,012</b>	<b>100.0</b>

Five banks with the largest end-June balance sheet total and ten banks with the largest end-June balance sheet total accounted for 46.2% and 68.8%, respectively, of the overall balance sheet total of the banking sector. HHI of concentration of balance sheet total remained practically unchanged from a quarter earlier (622) and equalled 621.

As at 30 June 2008, banks in majority foreign ownership accounted for RSD 1,236.4 billion or 75.0%, banks in the majority ownership of the Republic of Serbia for RSD 263.2 billion or 15.9%, and banks in majority private ownership for RSD 149.4 billion or 9.1%, of the banking sector balance sheet total.

## Banking sector balance sheet

As at 30 June 2008, balance sheet total of the banking sector stood at RSD 1,649.0 billion, which is RSD 33.6 billion or 2.1% higher than in Q1 2008 and RSD 87.2 billion or 5.6% higher than at end-2007.

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

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 (57.4%). Next in size were deposits with the National Bank of Serbia and securities refinanceable with the National Bank of Serbia (27.8%). Cash and cash equivalents made up 7.9% of balance sheet assets of the banking sector.

**Table 4 – Banking sector balance sheet**  
(in RSD million)

	31 Dec 2006		31 Dec 2007		30 Jun 2008		Growth index for Q2/Q1 2008	Growth index for 6 months of 2008	Growth index for 2007
	Amount	Share in %	Amount	Share in %	Amount	Share in %			
<b>ASSETS</b>									
Cash and cash equivalents	77,815	6.7	104,981	6.7	130,369	7.9	146	124	135
Deposits with the central bank and securities refinanceable with the central bank	406,735	34.8	489,902	31.4	458,204	27.8	90	94	120
Interest and fees receivable	4,347	0.4	5,982	0.4	8,121	0.5	117	136	138
Lending to domestic banks	32,415	2.8	43,261	2.8	48,682	3.0	108	113	139
Lending to clients	545,059	46.6	812,647	52.0	888,192	53.9	104	109	149
Securities and other tradable investment	8,584	0.7	6,544	0.4	7,845	0.5	96	120	76
Investment in securities held to maturity	6,948	0.6	12,020	0.8	12,715	0.8	97	106	173
Share in capital and other securities available for sale	15,284	1.3	7,045	0.5	6,788	0.4	108	96	46
Fixed assets intended for sale and assets from discontinued operations	394	0.0	334	0.0	302	0.0	90	90	85
Rebate on profit tax	253	0.0	523	0.0	1,358	0.1	154	260	207
Goodwill		0.0	0	0.0	0	0.0	0		0
Intangible investments	5,907	0.5	6,156	0.4	6,625	0.4	105	108	104
Investment real estate	4,266	0.4	4,398	0.3	4,062	0.2	92	92	103
Fixed assets	47,038	4.0	53,160	3.4	54,740	3.3	102	103	113
Other assets, prepayments and accrued income	11,748	1.0	12,343	0.8	18,494	1.1	138	150	105
Deferred tax assets	2,478	0.2	2,526	0.2	2,515	0.2	93	100	102
Losses in excess of capital		0.0		0.0		0.0	0		0
<b>TOTAL</b>	<b>1,169,271</b>	<b>100.0</b>	<b>1,561,822</b>	<b>100.0</b>	<b>1,649,012</b>	<b>100.0</b>	<b>102</b>	<b>106</b>	<b>134</b>
<b>LIABILITIES</b>									
Liabilities to domestic banks	63,352	5.4	79,693	5.1	95,703	5.8	107	120	126
Liabilities to clients	817,704	69.9	1,048,075	67.1	1,026,042	62.2	99	98	128
Liabilities in respect of interest and fees	980	0.1	2,786	0.2	1,941	0.1	125	70	284
Liabilities in respect of securities	10	0.0	2,610	0.2	2,752	0.2	103	105	26097
Liabilities from profit	196	0.0	270	0.0	180	0.0	88	67	138
Liabilities in respect of	525	0.0	376	0.0	223	0.0		59	72

	31 Dec 2006		31 Dec 2007		30 Jun 2008		Growth index for Q2/Q1 2008	Growth index for 6 months of 2008	Growth index for 2007
	Amount	Share in %	Amount	Share in %	Amount	Share in %			
current tax on profit									
Liabilities in respect of fixed assets intended for sale and assets from discontinued operations	0	0.0	0	0.0	0	0.0	0	0	0
Other operating liabilities	8,630	0.7	10,710	0.7	18,089	1.1	133	169	124
Provisioning	9,376	0.8	11,345	0.7	10,800	0.7	95	95	121
Other liabilities, accruals and deferred income	51,511	4.4	77,031	4.9	95,133	5.8	106	124	150
Deferred tax liabilities	699	0.1	557	0.0	613	0.0	99	110	80
<b>LIABILITIES</b>	<b>952,983</b>	<b>81.5</b>	<b>1,233,452</b>	<b>79.0</b>	<b>1,251,476</b>	<b>75.9</b>	<b>100</b>	<b>101</b>	<b>129</b>
Capital	216,288	18.5	328,370	21.0	397,536	24.1	109	121	152
equity and other capital	182,562	15.6	272,723	17.5	322,110	19.5	108	118	149
reserves	30,464	2.6	47,636	3.1	62,671	3.8	117	132	156
accumulated profit/loss	3,262	0.3	8,011	0.5	12,755	0.8	103	159	246
<b>TOTAL</b>	<b>1,169,271</b>	<b>100.0</b>	<b>1,561,822</b>	<b>100.0</b>	<b>1,649,012</b>	<b>100.0</b>	<b>102</b>	<b>106</b>	<b>134</b>
<b>OFF-BALANCE SHEET ITEMS</b>	<b>1,163,308</b>		<b>1,579,674</b>		<b>1,959,545</b>		<b>109</b>	<b>124</b>	<b>136</b>

Borrowed funds made up 75.9% of banking sector balance sheet liabilities, while capital accounted for the remaining 24.1%. Deposit potential accounted for the largest portion of borrowed funds, with 59.7% of total liabilities (compared to 61.7% at end-2007).

Banks' capital reached RSD 397 billion (rising by RSD 32.6 billion or 8.9% on end-Q1 2008 and by RSD 69.2 billion or 21.1% on end-2007). Item "equity and other capital" rose by 7.8% from end-Q1 2008 to RSD 322.1 billion.

After rising by RSD 162.9 billion on end-Q1 2008, off-balance sheet items of banks reached RSD 1,959.5 billion. During 2008, off-balance sheet items increased by RSD 379.9 billion or 24.0%. The largest single component of off-balance sheet items was "Other off-balance sheet assets",<sup>2</sup> which made up 47.2% of total off-balance sheet items. Second in size (for the first time) was item "Issued guarantees payable", which accounted for 14.0% of total off-balance sheet items.

<sup>2</sup> Received guarantees and other warranties, funds from custody operations and other off-balance sheet assets.

## Lending activity

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

**Table 5 – Bank lending activity**  
(in RSD million)

Sector	31 Dec 2006		31 Dec 2007		30 Jun 2008		Index growth for Q2/Q1 2008	Index growth for 6 months of 2008	Index growth for 2007
	Amount	Share in %	Amount	Share in %	Amount	Share in %			
ENTERPRISES	322,972	59.2	437,387	57.5	508,771	58.4	106	116	135
HOUSEHOLDS	195,873	35.9	302,543	39.8	337,564	38.8	103	112	155
Housing construction	47,334	8.7	89,434	11.8	113,853	13.1	108	127	189
PUBLIC SECTOR	21,644	4.0	13,928	1.8	14,643	1.7	92	105	64
SCG	220	0.0	1	0.0	1	0.0	100	100	0
Republic of Serbia	16,693	3.1	7,035	0.9	7,372	0.9	84	105	42
Local government	4,731	0.9	6,892	0.9	7,270	0.8	101	105	146
OTHER FINANCIAL ORGANIZATIONS	756	0.1	1,219	0.1	2,738	0.3	165	225	161
NON-PROFIT INSTITUTIONS	4,236	0.8	5,828	0.8	7,061	0.8	106	121	138
<b>TOTAL</b>	<b>545,481</b>	<b>100.0</b>	<b>760,905</b>	<b>100.0</b>	<b>870,777</b>	<b>100.0</b>	<b>105</b>	<b>114</b>	<b>139</b>

In Q2 2008, bank lending rose by RSD 39.1 billion or 4.7%.

In terms of sectoral distribution, lending to enterprises (58.4%) was dominant. The increase in lending to enterprises by RSD 30.5 billion accounted for the bulk of lending activity growth in 2008. Next in size was lending to households (38.8%). 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), in the six months of 2008 lending to enterprises increased by RSD 71.4 billion and lending to households by RSD 35.0 billion.

The share of the first five and the first ten banks in terms of the value of approved loans in total bank lending was 44.7% and 67.6%, respectively. HHI of credit concentration equalled 599.

## 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 Jun 2008			Growth index for Q2/Q1 2008	Growth index for 6 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>316,243</b>	<b>668,059</b>	<b>984,302</b>	<b>100</b>	<b>103</b>	<b>144</b>
Banks	25,102	73,122	98,224	30,216	93,438	123,654	32,970	83,242	116,212	99	94	126
Public enterprises	24,619	9,402	34,021	31,860	7,826	39,686	27,416	17,566	44,982	98	113	117
Other enterprises	105,344	72,489	177,833	185,090	105,610	290,700	150,229	117,942	268,171	95	92	163
Public sector	21,103	723	21,826	26,552	883	27,435	34,475	737	35,212	110	128	126
SCG	226	32	258	21	0	21	51	0	51	55	245	8
RS	6,778	682	7,460	15,512	846	16,358	17,243	720	17,963	109	110	219
Local government	14,099	9	14,108	11,019	37	11,056	17,181	18	17,199	112	156	78
Other clients	11,507	2,362	13,869	13,248	2,503	15,751	17,205	3,241	20,446	116	130	114
Foreign legal entities and private individuals	2,736	19,639	22,375	6,427	24,580	31,007	2,783	25,812	28,595	93	92	139
Households	33,523	260,746	294,269	46,781	381,439	428,220	47,685	419,341	467,026	102	109	146
Other	3,448	425	3,873	3,823	-115	3,708	3,481	176	3,657	102	99	96

The largest share of deposits referred to household deposits (47.4%), followed by enterprise deposits (31.8%) and bank deposits (11.8%).

Foreign currency deposits made up 67.9% and dinar deposits 32.1% of total deposits. Short-term time deposits (51.8%) were dominant, followed by demand deposits (40.7%).

Total deposits declined by RSD 2.6 billion in Q2 2008, while enterprise deposits declined by RSD 15.1 billion.

Breakdown by sector shows that household deposits increased most in Q2 2008 – by RSD 9.4 billion or 2.0%.

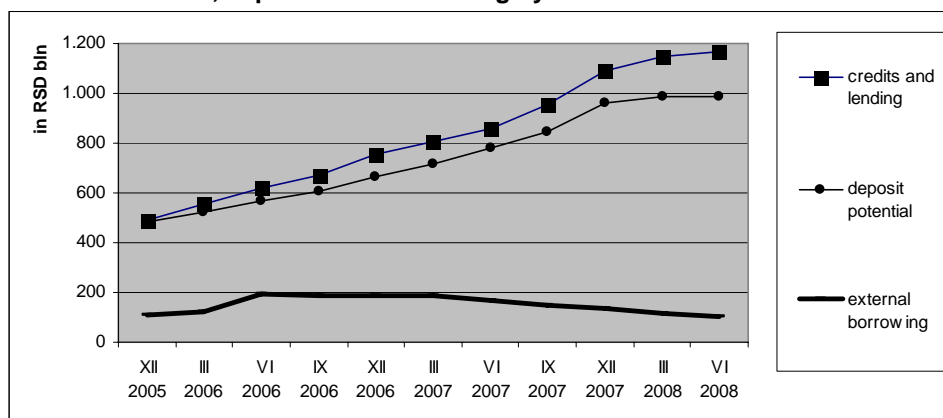
The share of the first five and the first ten banks in terms of the size of their deposits in total banking sector deposits was 49.6% and 72.0%, respectively. HHI of deposit concentration stood at 706 (a marginal change relative to Q1 2008).

During 2008, total deposits increased by RSD 24.1 billion or 2.5%. The increase was particularly pronounced for foreign currency deposits (8.4%), household deposits (RSD 38.8 billion or 9.1%) and long-term time deposits (64.5%).

## 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 102.2 billion and mostly referred to borrowing maturing in over one year. Foreign owned banks accounted for 99.1% of such borrowing. During Q2 2008, external credits of banks dropped by RSD 13.1 billion (11.4%), while their share in total balance sheet liabilities of the banking sector declined from 8.6% (end-2007) and 7.1% (31 March 2008) down to 6.2%. During the six months of 2008, banking sector borrowing abroad declined by RSD 31.6 billion.

**Chart 1 - Credits<sup>3</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, in its Decision on the Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items, the National Bank of Serbia prescribed that banks should classify all receivables that carry credit risk into five categories depending on the assessed level of collectibility of receivables and financial standing of the borrower, and that they should do so on a quarterly basis. This means that banks are to classify receivables that constitute risk-weighted balance sheet and

<sup>3</sup> Including NBS repo lending.

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 June 2008.

**Table 7 – Quality of banking sector assets**  
(in RSD million)

		A+B	C + D + E	TOTAL
Total BA and OA	1			3,726,058
Gross risk-weighted assets	2	1,064,811	536,738	1,601,549
Share of gross risk-weighted assets	3	66.5%	33.5%	100.0%
<b>Reductions (total)</b>	<b>4=5+6+7</b>	<b>388,185</b>	<b>254,009</b>	<b>642,194</b>
collateral*	5	352,496	158,064	510,560
special provisioning against income	6	10,705	83,359	94,064
special provisioning against capital	7	24,984	12,586	37,570
<b>Net risk-weighted assets</b>	<b>8=2-4</b>	<b>676,626</b>	<b>282,729</b>	<b>959,355</b>
Share of net risk-weighted assets	9	70.5%	29.5%	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.

As at 30 June 2008, overall balance sheet assets and off-balance sheet items came to RSD 3,726,058 million, of which RSD 1,601,549 million or 43.0% referred to total gross risk-weighted assets (balance sheet assets and off-balance sheet items). In Q2 2008, the share of total gross risk-weighted assets in categories C, D and E increased from 32.6% at end-Q1 2008 to 33.5% (compared to 30.4% at end-2007).

If collaterals that serve as security are included, receivables classified in categories C, D and E accounted for RSD 158,064 million. In order to safeguard against potential losses in respect of receivables from borrowers classified in categories C, D and E, banks created special provisions of a total of RSD 95,945 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 29.5% compared to 28.3% at end-Q1 2008 and 24.7% at end-2007. Despite the growth trend, however, the level of regulatory capital is sufficiently high to absorb any potential losses on lending.

## 1.2. Non-performing loans - NPL

According to Credit Bureau<sup>4</sup> data on the stock of debt on bank credits<sup>5</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 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
31 Dec 2007	865,448.63	44,213.77	28,121.03	5.11	3.25
31 Mar 2008	1,008,261.67	44,077.30	27,867.37	4.37	2.76
30 Jun 2008	1,009,007.15	53,613.47	31,645.65	5.31	3.14

In Q2 2008, collectibility of receivables deteriorated and the level of credits in default went up.

## 2. Liquidity risk

The table below gives an overview of daily liquidity ratios of banks as at 30 June 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	73,447,906	65,907,570	7,540,336	3,043,000	0

Of the total number of banks, 19 banks used required reserve assets in the total amount of RSD 9,168 million or 13.9% of total calculated required reserves of such banks. No banks resorted to liquidity loans.

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

<sup>4</sup> Of the Serbian Banking Association.

<sup>5</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.

### 3. Foreign exchange risk

An analysis of foreign currency positions of the banking sector as at 30 June 2008 shows that total open foreign currency position stood at RSD 29.0 billion, which is RSD 10.5 billion lower than at end-Q1 2008. Foreign exchange risk exposure of the banking sector, therefore, declined from a quarter earlier, and the foreign exchange risk ratio equalled 9.4% (compared to 13.8% in Q1 2008 and 14.8% at end-2007).

**Table 11 – Foreign exchange risk of banks**  
(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 foreign currency position
long	short	long	short	long	short	long	short	long	short	long	short	
21,130	927	3,423	540	2,113	179	578	22	58	-	27,302	1,669	28,971

### Capital adequacy

Banks' regulatory capital increased in Q2 2008 by RSD 18.3 billion or 6.4%. This was mainly due to an increase in core capital (by RSD 22.7 billion or 7.6%), including primarily equity capital (by RSD 17.1 billion) and issue premium (by RSD 5.8 billion).

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

The table below shows the value of the capital adequacy ratio of banks at the end of Q2 2008:

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

Capital adequacy ratio	Number of banks	Share in overall balance sheet total (in %)
Under 20%	5	24.7
From 20 to 30%	10	29.0
From 30 to 50%	12	39.6
Over 50%	7	6.7
<b>Total</b>	<b>34</b>	<b>100.0</b>

The average capital adequacy ratio for the banking system equalled 28.1%.

## Banking sector profitability indicators

The table below gives an overview of profitability indicators:

**Table 13 – Movements in banks' profitability**

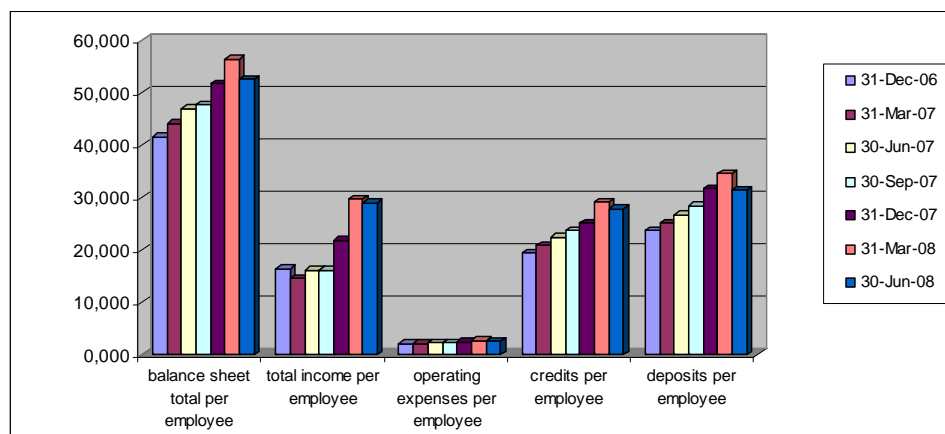
Banking sector	PROFITABILITY INDICATORS <sup>6</sup> (%)				Financial result (in RSD thousand)
	Gross income/balance sheet assets	Net interest income/balance sheet assets	Operating expenses/balance sheet assets	Operating expenses/net income from interest and fees	
31 Dec 2006	39.46	4.13	5.20	86.30	16,530,318
31 Dec 2007	42.31	3.97	4.54	79.09	23,473,323
30 Jun 2008	55.03	5.32	4.75	65.23	20,888,832

Banking sector	ROA (%)	ROE (%)	NIM (%)
31 Dec 2006	1.70	9.67	7.46
31 Dec 2007	1.70	8.54	6.54
30 Jun 2008	2.60	11.51	7.50

## Banking sector productivity indicators

Values of balance sheet assets, deposits and credits per employee as well as total income and operating expenses per employee decreased in Q2 2008 from a quarter earlier. An overview of the above indicators is given in the chart below.

**Chart 2 – Productivity indicators**



<sup>6</sup> All indicators are calculated at annual level.

## Aggregate statement of income and expenses

In Q2 2008, the banking sector recorded (pre-tax) profit of RSD 20,889 million. A total of 26 banks recorded a positive financial result, while 8 banks recorded operating losses.

H1 net foreign exchange differentials, positive for the first time in 2008, came to RSD 6.7 billion, accounting for roughly 60% of total income and expenses. The share of expenses in respect of change in the value of assets and liabilities shot past 12% (two times more than at end-Q1), while the share of income and expenses in respect of interest and fees declined by 1 percentage point.

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

Item	1 Jan – 31 Dec 06	1 Jan – 31 Dec 07	1 Jan – 30 Jun 08
NET INTEREST INCOME	48,245	63,404	43,853
Interest income	76,937	106,942	72,141
Interest expenses	28,692	43,538	28,288
NET PROFIT/LOSS IN RESPECT OF FEES AND COMMISSIONS	22,178	27,451	16,248
Fee and commission income	28,372	34,433	20,020
Fee and commission expenses	6,194	6,983	3,772
NET PROFIT/LOSS IN RESPECT OF INTEREST, FEES AND COMMISSIONS	70,423	90,854	60,101
NET PROFIT FROM SALE OF SECURITIES	981	3,293	1,030
Profit in respect of securities	1,766	3,295	1,063
Losses in respect of securities	785	2	33
NET EXCHANGE RATE GAINS/LOSSES	10,543	6,959	6,711
INCOME FROM DIVIDENDS AND STAKES	185	1,081	123
OTHER OPERATING INCOME	65,316	53,445	37,533
EXPENSES IN RESPECT OF INDIRECT WRITE-OFFS AND PROVISIONING	61,938	61,149	43,890
OTHER OPERATING EXPENSES	64,174	72,712	39,999
NET INCOME/EXPENSES IN RESPECT OF CHANGE IN THE VALUE OF ASSETS AND LIABILITIES	- 4,805	1,702	- 720
Income in respect of change in the value of assets and liabilities	14,602	64,271	51,442
Expenses in respect of change in the value of assets and liabilities	19,407	62,569	52,162
OPERATING PROFIT/LOSS	16,530	23,473	20,889
NET EXTRAORDINARY INCOME/EXPENSES			
Extraordinary income*			
Extraordinary expenses*			
Profit from discontinued operations**	0	0	0
Losses from discontinued operations**	0	0	0
<b>PROFIT/LOSSES BEFORE TAX</b>	<b>16,530</b>	<b>23,473</b>	<b>20,889</b>

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

\*\* Newly introduced items.

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

During Q2 2008, the National Bank of Serbia amended the following regulations coming under its regulatory remit (in the field of banking supervision):

- ***Decision on Amendment to the Decision on Reconciliation of Gross Household Lending and Share Capital of Banks***, whereby the exemption to gross lending under restriction was narrowed down to refer to dinar loans with no foreign currency clause. The Decision was followed by ***Guidelines on Amendment to the Guidelines for the Implementation of the Decision on Reconciliation of Gross Household Lending and Share Capital of Banks***.
- ***Decision on Amendment to the Decision on Capital Adequacy of Banks*** (valid until 30 June 2008), in the section on foreign exchange risk, abolished the provision on the reduction of foreign currency receivables by special reserves for estimated losses.
- ***Decision on Amendment to the Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items*** (valid until 30 June 2008), tightened the criteria for classifying receivables from natural persons into category E. Mandatory down payment or deposit was raised to 30% (instead of the previous 20%). In addition to housing loans and credit card obligations, the decision introduced another exemption to the provision of such down payment or deposit – loans approved in dinars but not indexed to a foreign currency clause.
- ***Decision on Amendment to the Decision on External Audit of Banks*** introduced an obligation for banks to report, among other things, on total gross and net compensations earned by the chairmen of the board of directors and aggregately by other members of the board of directors, and on total gross and net compensations and wages earned by the chairman of the executive board and aggregately by other members of the executive board in the bank. The decision also specified a ***List of external auditors to conduct the audit of financial statements of banks***.

- ***Decision on Amendments to the Decision on Capital Adequacy of Banks*** (valid as of 1 July 2008) defines a number of provisions in closer detail. Among other things, the decision gives a more specific definition of alternative methods for valuating positions (exposures) from the trading book. Banks are required to submit a summary description of selected alternative valuation methods to the National Bank of Serbia by 1 August 2008. The decision further prescribes the minimum content of the written internal policy relating to the bank's trading book. The decision extended the deadline for submitting the written internal policy relating to the trading book until 31 August. In addition, the decision envisages equal treatment of bank's claims backed by mortgage on residential property owned by a bank's borrower and claims backed by mortgage on residential property owned by other persons. When calculating capital requirement for foreign exchange risk, banks may exclude deductions from capital expressed in a foreign currency or with a foreign currency clause from the calculation of open foreign currency position, provided that such deductions are not traded in and that the bank is consistent in excluding the above deductions from the calculation of the open foreign currency position.
- ***Decision on Amendment to the Decision on Risk Management by Banks*** (valid as of 1 July 2008), in the section on aggregate exposure of a bank to a single entity or a group of related entities, defines in closer detail the meaning of "sum total of all balance sheet receivables and off-balance sheet items".
- ***Decision on Amendments and Supplements to the Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items*** (valid as of 1 July 2008), in addition to providing a number of clarifications, tightened the conditions for classifying receivables from natural persons into category E. Mandatory down payment or deposit was raised to 30% (instead of the previous 20%). In addition to housing loans and credit card obligations, another exemption to the provision of such down payment or deposit refers to loans approved in dinars but not indexed to a foreign currency clause. In addition, receivables fully backed by prime collateral cannot be classified into category A if more than 90 days have elapsed since the original maturity date of such receivables.
- To enable the implementation of the decisions relating to supervision, the NBS also enacted ***Reporting Guidelines for Banks*** and ***Reporting Guidelines for Banks Relating to the Capital Adequacy Ratio, Capital Requirements and Trading Book***.