NATIONAL BANK OF SERBIA
BANK SUPERVISION DEPARTMENT

BANKING SECTOR IN SERBIA

Second Quarter Report 2019

2019

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1 BASIC INFORMATION ON THE SERBIAN BANKING SECTOR

1.1 Selected parameters of the Serbian banking sector[1]

At end-June 2019, the Serbian banking sector numbered 26 banks, which is one bank fewer than at end-March 2019.[2] The organisational network consisted of 1,599 business units and employed a total of 23,101 persons.

Table 1.1 **Selected parameters of the Serbian banking sector**
(in RSD bn, in %)

	Number of banks	Assets		Capital		Network		Employment	
		Amount	Share	Amount	Share	Number of business units[1)]	Share	Number of employees	Share
Banks in domestic ownership	7	897	23.5%	159	23.9%	550	34.4%	6,630	28.7%
State-owned	4	617	16.2%	94	14.2%	437	27.3%	5,181	22.4%
Privately-owned	3	280	7.3%	65	9.7%	113	7.1%	1,449	6.3%
Banks in foreign ownership	19	2,913	76.5%	506	76.1%	1,049	65.6%	16,471	71.3%
Italy	2	1,032	27.1%	183	27.5%	233	14.6%	4,321	18.7%
Austria	2	520	13.7%	80	12.1%	184	11.5%	2,763	12.0%
France	2	427	11.2%	60	9.0%	179	11.2%	2,282	9.9%
Hungary	1	204	5.3%	32	4.8%	154	9.6%	2,033	8.8%
Other	12	730	19.2%	151	22.7%	299	18.7%	5,072	22.0%
Total banking sector	**26**	**3,810**	**100.0%**	**665**	**100.0%**	**1,599**	**100.0%**	**23,101**	**100.0%**

[1)] Business units include all business network forms: headquarters, branches, branch offices, teller units and other business units.

Source: NBS.

Q2 2019 saw an increase in the Serbian banking sector employment and the number of business units. At end-Q2 2019, banking sector employment went up by a total of 102 persons compared to their number at end-March 2019, as a consequence of a simultaneous increase in the number of employees by 217 in 20 banks and downsizing employment by 115 in six banks. Within the business network, the number of business units decreased by seven in three banks and increased by eight in six banks.

[1] All data in the Report are based on the reports that banks are required to submit to the NBS. These reports have not been audited by external auditors or verified by NBS on-site supervisors.

[2] At end-April 2019 OTP banka Srbija a.d. Novi Sad became the 100% owner of Vojvodjanska banka A.D. Novi Sad and changed the name to Vojvodjanska banka a.d. Novi Sad.

At end-June 2019, the total net balance sheet assets of the Serbian banking sector equalled RSD 3,810.0 bn (rising by 0.5% relative to March 2019) and the total balance sheet capital RSD 664.8 bn (down by 2.5% relative to March 2019).

In the quarter observed, banks in majority ownership of domestic entities (private entities and the Republic of Serbia) slightly decreased their market share in banking sector balance sheet total (from 24.7% to 23.5%), as well as their share in total banking sector capital (24.4% to 23.9%). Consequently, the share of banks in majority ownership of foreign entities increased from 75.3% to 76.5% relative to the balance sheet total and from 75.6% to 76.1% relative to the capital. The nominal fall was recorded for banks in majority ownership of the Republic of Serbia in regard to the balance sheet total and for all banking groups in regard to capital.

Banks from Italy, Austria, France and Hungary (seven banks in total) accounted for the dominant share in total banking sector balance sheet assets – 57.3%.

1.2 Concentration and competition

The Serbian banking sector is characterised by an acceptable level of competition and low concentration of activities. The Herfindahl Hirschman index[3] values indicate the absence of concentration in all observed categories.

Table 1.2.1 **Concentration and competition indicators**
(Share in %)

	Top 5 banks	Top 10 banks	HHI [1)]
Assets	54.1	80.0	805
Lending (total)	52.9	79.5	805
Household loans	53.5	82.7	840
Corporate loans	53.5	83.4	838
Deposits (total)	55.5	81.2	838
Household deposits	58.6	83.1	967
Income (total)	50.7	77.9	739
Interest	51.8	78.3	769
Fees and commissions	59.8	82.7	960

[1)] Herfindahl Hirschman Index of concentration.
Source: NBS.

For a long time now, the highest values of the index were observed in household deposits and income from fees and commissions, while the lowest figures were noted for total income and interest income.

[3] The Herfindahl Hirschman Index (HHI) is calculated as the sum of square values of individual bank shares in the category observed (assets, loans, deposits, etc.). HHI up to 1,000 indicates that there is no market concentration; 1,000–1800 indicates moderate concentration; above 1,800 indicates high concentration.

At the same time, if the five biggest banks are observed in terms of balance sheet assets, gross loans and deposits, it is evident that they account for more than half of the Serbian banking sector in these segments given their share in the net balance sheet assets (54.1%), gross loans (52.9%) and deposits (55.5%).

At end-Q2 2019, in terms of balance sheet total, the five largest banks maintained their positions compared to the previous quarter as well as the same period last year.

Table 1.2.2 **Top ten banks according to the total assets criterion**

(in RSD bn, in %)

	30. 6. 2018			31. 3. 2019			30. 6. 2019			Δ Γ	Δ T
	Amount	Share	Ranking	Amount	Share	Ranking	Amount	Share	Ranking		
Banca Intesa A.D. Beograd	550	15.8	1	575	15.2	1	593	15.6	1	=	=
Unicredit Bank Srbija A.D. Beograd	412	11.9	2	428	11.3	2	439	11.5	2	=	=
Komercijalna banka A.D. Beograd	381	10.9	3	403	10.6	3	412	10.8	3	=	=
Societe Generale banka Srbija A.D. Beograd	292	8.4	4	312	8.2	4	317	8.3	4	=	=
Raiffeisen Banka A.D. Beograd	278	8.0	5	291	7.7	5	299	7.9	5	=	=
Erste Bank A.D. Novi Sad	179	5.2	7	210	5.5	7	221	5.8	6	↑	↑
Agroindustrijsko komercijalna banka AIK banka akcionarsko društvo, Beograd	201	5.8	6	209	5.5	8	208	5.5	7	↓	↑
Vojvođanska banka a.d. Novi Sad	77	2.2	15	84	2.2	15	204	5.3	8	↑	↑
Banka Poštanska štedionica A.D. Beograd	157	4.5	9	229	6.0	6	182	4.8	9	=	↓
Eurobank A.D. Beograd	164	4.7	8	172	4.5	9	173	4.5	10	↓	↓

Source: NBS.

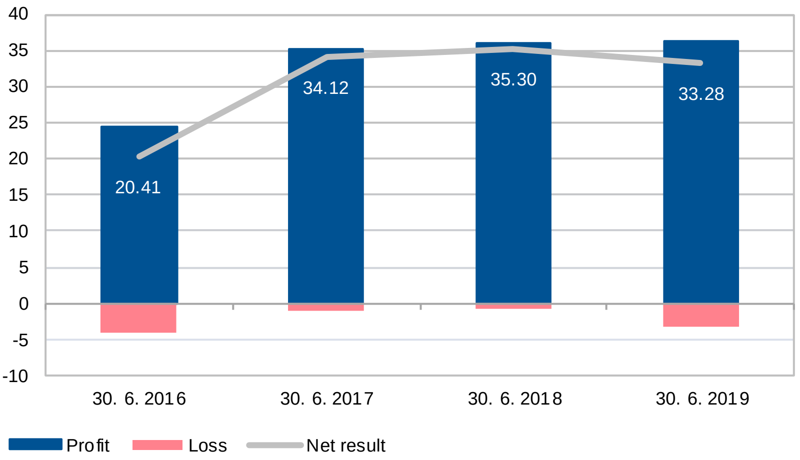
In terms of balance sheet total, Banca Intesa A.D. Beograd remained the leading bank in Serbia; its market share edged up (by 0.4 pp) from the previous quarter, but decreased from the same period last year (by 0.2 pp). In addition to Banca Intesa A.D. Beograd, the following banks had market shares above 10% as at 30/06/2019: Unicredit Bank Srbija A.D. – Belgrade (11.5%) and Komercijalna banka a.d. – Belgrade (10.8%).

2 PROFITABILITY

2.1 Profitability indicators

The banking sector's net profit before tax in Q2 2019 equalled RSD 33.3 bn, down by 5.7% compared to the result achieved last year.

Chart 2.1.1 **Pre-tax result**

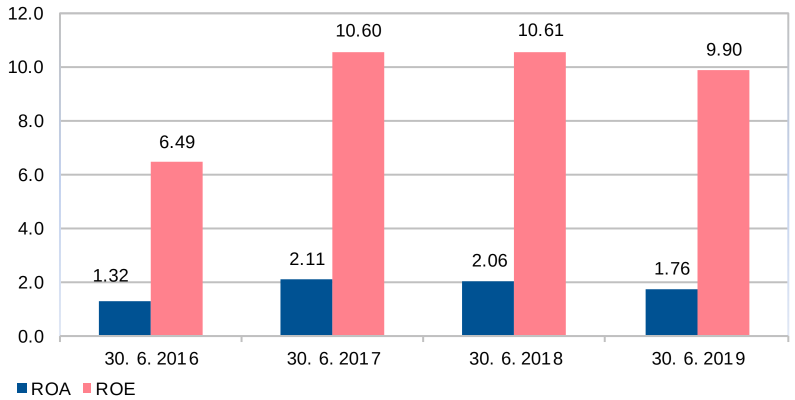


Source: NBS.

The structure of the net profit is as follows: eighteen banks operated with a profit of RSD 36.4 bn, while eight banks accounting for 11.2% of the market share posted a negative financial result totalling RSD 3.1 bn. The profit and loss generating items of the banking sector were somewhat more concentrated than the balance sheet total: eight banks with the highest net profit together made up 92.5% of the total sector's profit, while two banks with the highest net losses accounted for 65.0% of the total losses.

Preserved profitability of the banking sector at end-June 2019 resulted in the following profitability indicators: ROA equalled 1.76% (2.06% at end-June 2018) and ROE 9.90% (10.61% at end-June 2018).

Chart 2.1.2 **Banking sector profitability indicators**
(in %)



Source: NBS.

2.2 Structure of the results[4]

In an environment of lending expansion, despite the downward trend in average interest rates and with the customary reliance of domestic banks on traditional credit-deposit business models, the main drivers behind the rising net profit were net interest and fee income.

Net interest income at end-Q2 2019 stood at RSD 63.1 bn, up 1.3% from the same period in 2018. This increase stems from the higher interest income (by RSD 1.8 bn) and, at the same time, the rise in interest expenses (by RSD 1.0 bn). At end-June 2019, the structure of interest income at banking sector level was diversified: 78.9% of interest income came from loans, 16.5% from securities and 2.0% from deposits. On the expense side, interest expenses in respect of deposits had the highest share (74.3%), followed by those associated with loans (16.4%) and securities (4.3%).

In the quarter observed, net fee and commission income increased by 4.8% or RSD 0.9 bn relative to 30 June 2018 due to the RSD 0.9 bn rise in the fee and commission income, while expenses on this account declined slightly (0.5%). The most significant types of fee and commission income are those associated with payment transactions (a 31.6% share in total fee and commission income), payment cards (21.0%) and deposits (14.5%), whereas on the expense side, total expenses in respect of payment cards had the highest share (46.8%), followed by payment transaction expenses (12.6%).

Table 2.2 **Changes in key elements of bank profitability**
(in RSD mn)

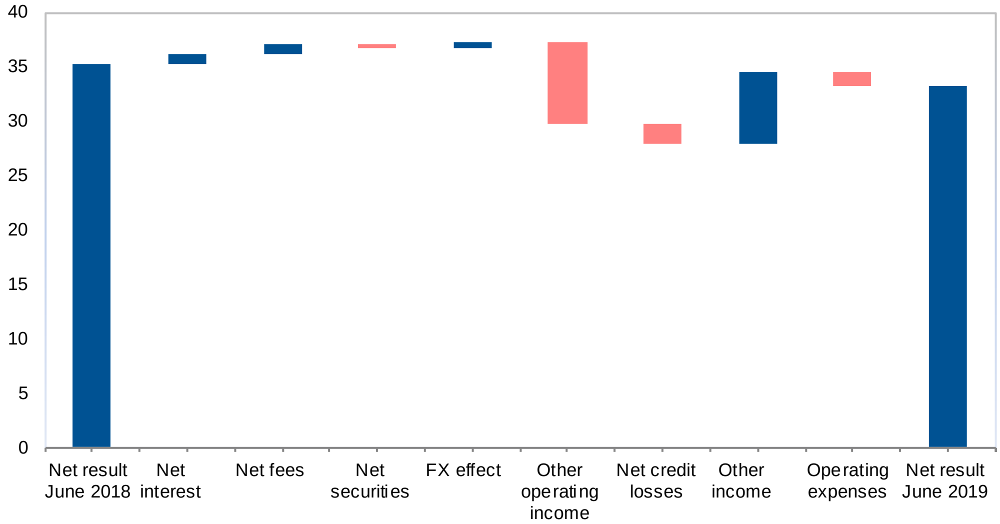
	Result	Net interest	Net fees	Net Credit losses	Exchange rate effect
30. 6. 2019	33,282	63,058	19,996	-3,731	4,242
30. 6. 2018	35,296	62,255	19,074	-1,796	3,616
Change:	**-6%**	**1%**	**5%**	**108%**	**17%**

Source: NBS.
* In regard with the previously submitted report, data as at end-June 2018 were changed due to repeated reports by one bank.

The net result from the impairment of financial assets not carried at fair value through income statement was negative at end-Q2 2019 and stood at RSD 3.7 bn, compared to RSD 1.8 bn of net loan losses in the same period of 2018. This is partly due to the enforcement of the Law on the Conversion of Housing Loans Indexed to Swiss Francs, which began to be implemented in May and June 2019. Banks recorded net expenses under indirect write-off of financial assets measured at amortised cost in the amount of RSD 5.9 bn (RSD 2.1 bn net expense on this account in the same period of 2018). The write-off of uncollectible receivables generated net revenues of RSD 2.1 bn, while minimum net expenses were recorded on this account in 2018.

[4] Note: data for 30 June 2018 are changed compared to the previous report because one bank re-submitted reports.

Chart 2.2 **The structure of the result**
(in RSD bn)



Source: NBS.

At end-Q2 2019, net gains from securities declined RSD 0.3 bn from the year before and equalled RSD 1.5 bn.

The net effect of the dinar exchange rate fluctuations on the Serbian banking sector result at end-Q2 2019 was positive, resulting in net foreign exchange gains and currency clause effects of RSD 4.2 bn. Net exchange rate gains on FX receivables and liabilities equalled RSD 6.8 bn, while net exchange rate losses associated with the agreed FX currency clause came at RSD 2.6 bn.

Increase in other income at end-Q2 2019, when compared to the corresponding period a year earlier, is largely attributable to revenue recognition in beneficial purchases in bank mergers.

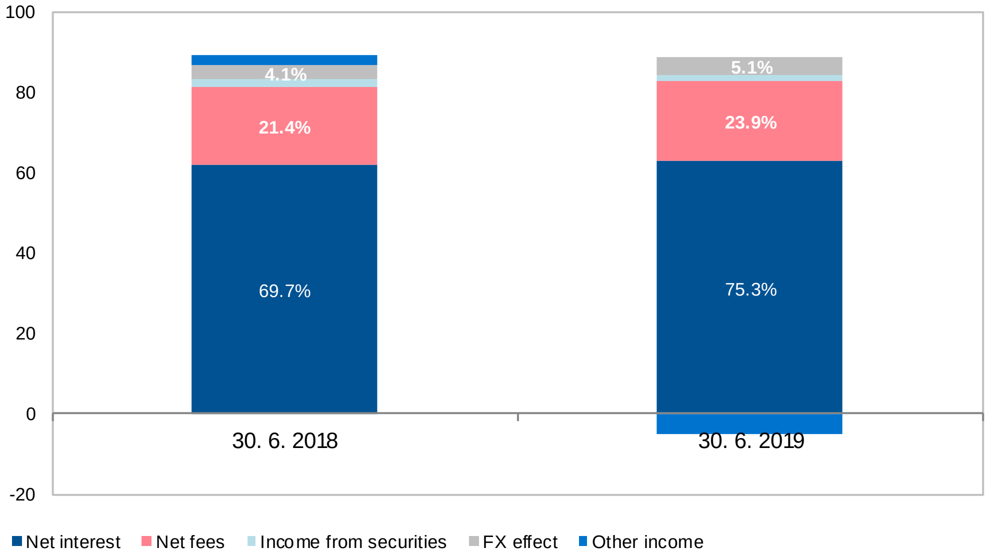
2.3 Operating income

At end-Q2 2019, the banking sector's total operating income stood at RSD 83.8 bn, down by 6.2% compared to the total operating income from the same period in 2018.

The decrease in operating income in 2019, relative to the operating income in 2018, was mostly the result of the enforcement of the Law on the Conversion of Housing Loans Indexed to Swiss Francs, which began to be implemented in May and June 2019.

The effect of the conversion of CHF-indexed housing loans into EUR-indexed loans was recorded with 15 banks. More than 50% of the conversion net effect pertains to four banks.

Chart 2.3 **Operating income structure**
(in RSD bn, in %)

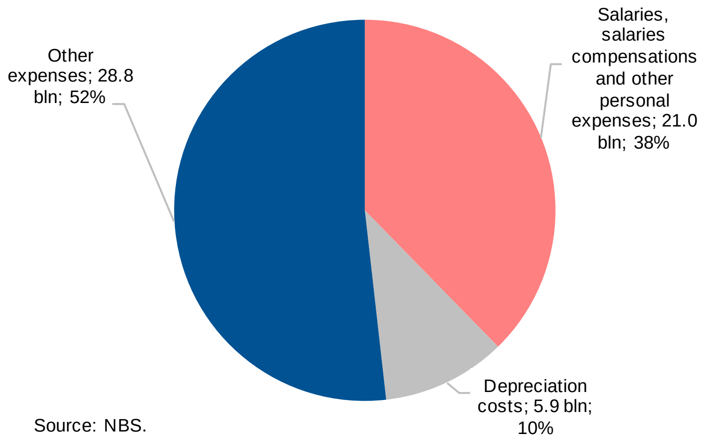


Source: NBS.

2.4 Operating expenses

At end-Q2 2019, the operating expenses of the Serbian banking sector equalled RSD 55.7 bn, up by 2.3% y-o-y. Within operating expenses, the increase was recorded only with depreciation costs (by 64.2%) which make up 10.5% of operating expenses. This increase is the result of the implementation of IFRS 16 – Leases. Item "Other expenses" decreased 2.5% relative to the expenses generated in the same period in 2018 (this item accounts for 51.8% of operating expenses). Expenses relating to salaries, compensations and other personal expenses decreased by 1.5% (making up 37.7% of total operating expenses).

Chart 2.4 **Structure of operating expenses**
30 June 2019



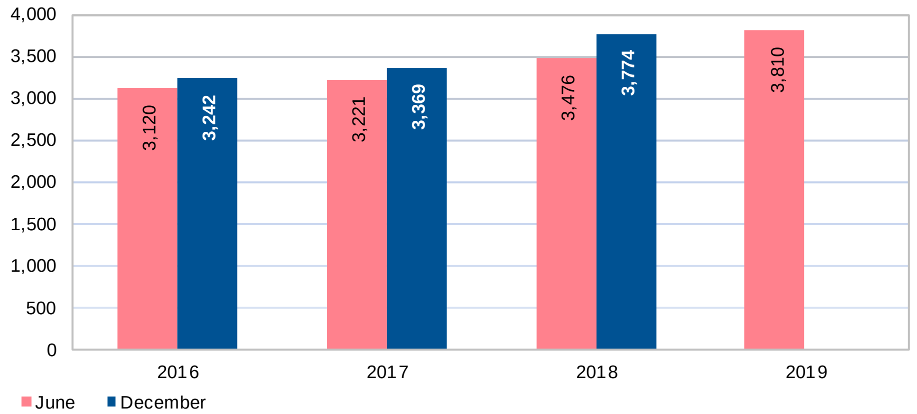
Source: NBS.

3 BANKING SECTOR ASSETS

3.1 Level and structure

Total net balance sheet assets of the Serbian banking sector at end-June 2019 equalled RSD 3,810.0 bn, indicating a q-o-q increase of RSD 17.2 bn or 0.5%.

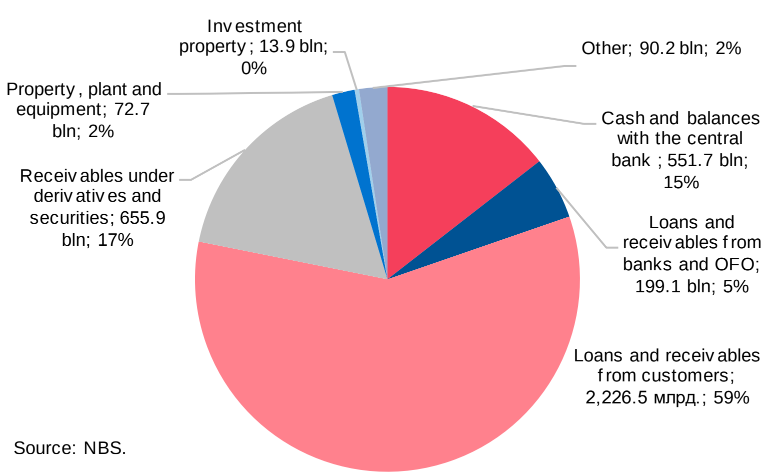
Chart 3.1.1 **Total banking sector assets**
(in RSD bn)



Source: NBS.

Loans and receivables (to banks and other clients) held a dominant share of 63.7% in banking sector net assets (as a result of banks' orientation towards traditional banking activities), rising up by 1.5 pp q-o-q. Also, item Securities held a significant share (17.2%) and item Cash and balances with the central bank (14.5%). Banks' investments in securities were mostly related to investment in government securities issued by the Republic of Serbia, which made this segment of banking sector investment highly secure.

Chart 3.1.2 **Banking sector assets structure**
30 June 2019



Source: NBS.

Table 3.1 **Change in key asset items of the banking sector**
(in RSD mn)

	Amount	Change relative to prior periods			
		Nominal		Relative	
	30. 6. 2019	31. 3. 2019	31. 12. 2018	31. 3. 2019	31. 12. 2018
Cash and balances with the central bank	551,650	-45,064	-45,172	-7.6%	-7.6%
Loans and receivables	2,425,581	68,268	56,501	2.9%	2.4%
from banks and OFO	199,110	23,169	-8,935	13.2%	-4.3%
from customers	2,226,471	45,098	65,436	2.1%	3.0%
Receivables under derivatives and securities [1)]	655,925	-6,820	-9,542	-1.0%	-1.4%
Property, plant and equipment	72,715	1,165	21,195	1.6%	41.1%
Investment property	13,887	276	240	2.0%	1.8%
Other	90,223	-647	12,659	-0.7%	16.3%
Total balance sheet	**3,809,980**	**17,178**	**35,882**	**0.5%**	**1.0%**

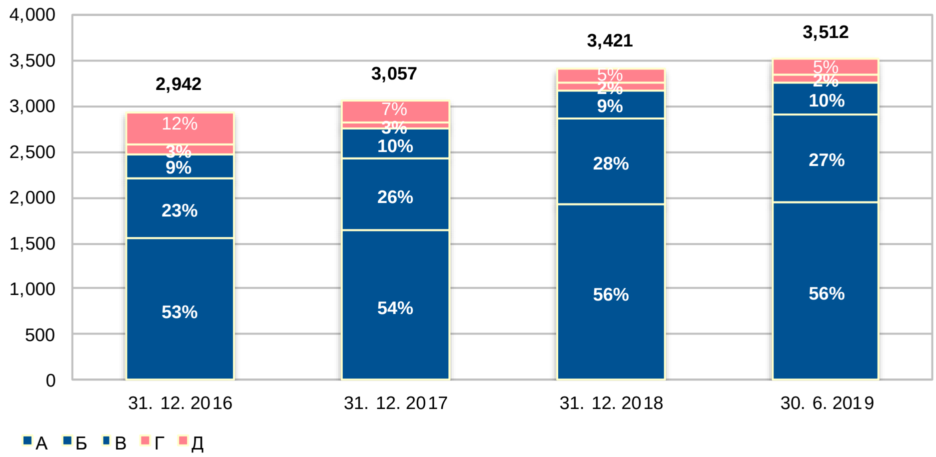
[1)] Until 2018 the following financial assets have been included: recognised at fair value through income statement and held for trading, available for sale, held to maturity and initially recognised at fair value through income statement.

Source: NBS.

3.2 Classified assets

At end-June 2019, total classified assets (on- and off-balance sheet) equalled RSD 3,511.8 bn, up by RSD 58.1 bn (1.7%) q-o-q. Balance sheet assets subject to classification rose by RSD 39.1 bn and off-balance sheet items subject to classification by RSD 19.0 bn. Within balance sheet assets subject to classification, the most significant changes were recorded for long-term loans and deposits with banks, which rose by RSD 49.3 bn and went down by RSD 21.5 bn, respectively. Of the off-balance sheet items, the largest absolute increase was recorded in item "Performance guarantees" – by RSD 9.3 bn. Long-term loans in balance sheet assets and contingent liabilities in off-balance sheet assets, with RSD 1,921.0 bn and RSD 561.8 bn at end-June 2019, remained the most important items subject to classification (share of 75.3% and 58.4% in total classified balance / off-balance sheet items).

Chart 3.2 Total classified assets
(in RSD bn, in %)



Source: NBS.

The most significant change in balance sheet assets subject to classification relative to a quarter earlier was an increase in balance sheet items from category B by RSD 27.1 bn, primarily in long-term loans. Category C recorded an increase of RSD 16.9 bn (in short-term loans), while the “worst” category E contracted by RSD 5.1 bn. Consequently, the share of the two worst categories declined by 0.3 pp, hence bad assets accounted for 8.6% of total classified balance sheet assets.

Increase in total classified off-balance sheet items is the result of the increase in all classification categories in Q2. The considerably higher D and E categories (by 18.4% and 22.6% respectively relative to end-March) resulted in an increase in the share of off-balance bad assets in total classified off-balance sheet assets from 3.1% to 3.7%.

Table 3.2 **Change in key balance sheet and off-balance sheet asset items of the banking sector**

(in RSD mn)

	Amount	Change relative to prior periods			
		Nominal		Relative	
	30. 6. 2019	31. 3. 2019	31. 12. 2018	31. 3. 2019	31. 12. 2018
Balance sheet assets subject to classification	**2,549,512**	**39,089**	**49,243**	**1.6%**	**2.0%**
Short-term loans	333,171	3,568	-12,781	1.1%	-3.7%
Long-term loans	1,920,975	49,347	71,188	2.6%	3.8%
Receivables due	78,593	2,396	1,442	3.1%	1.9%
Deposits with banks	72,981	-21,484	-39,269	-22.7%	-35.0%
Off-balance sheet items subject to classification	**962,242**	**18,968**	**41,802**	**2.0%**	**4.5%**
Payable guarantees	116,984	4,617	3,154	4.1%	2.8%
Performance guarantees	231,158	9,289	13,531	4.2%	6.2%
Contingent liabilities	561,790	-1,518	13,237	-0.3%	2.4%

Source: NBS.

Assigned receivables amounted to RSD 2.6 bn in Q2 2019, which is 36.8% higher than Q1 2019, but almost two and a half times lower y-o-y (in Q2 2018 assigned receivables equalled RSD 6.3 bn). All RSD 2.6 bn worth of receivables in Q2 2019 were assigned to non-banking sector entities.

3.3 Loans[5]

In Q2 2019, gross loans of the Serbian banking sector recorded a nominal quarterly increase of RSD 55.7 bn or 2.5%, reaching RSD 2,327.4 bn.

[5] In accordance with the Guidelines on the Obligation and Method of Collection, Processing and Submission of Data on the Stock and Structure of Bank Loans, Receivables and Liabilities, loans include the following loans in dinars and foreign currency: recalls, transaction account loans, overnight loans, consumer, liquidity and current assets loans, export, investment, housing and cash loans, loans for the payment of imports of goods and services from abroad, loans for the purchase of real estate in the country to a natural person, and other loans.

Table 3.3 **Change in the level of net loans**
(in RSD mn, in %)

	Amount	Change relative to prior periods			
		Nominal		Relative	
	30. 6. 2019	31. 3. 2019	31. 12. 2018	31. 3. 2019	31. 12. 2018
Finance and insurance	31,983	8,025	4,577	33.5%	16.7%
Public enterprises	102,066	7,349	4,084	7.8%	4.2%
Companies	1,040,553	17,352	22,745	1.7%	2.2%
Public sector	31,912	3,885	7,260	13.9%	29.5%
Households	931,069	11,741	28,869	1.3%	3.2%
Foreign persons and foreign banks	49,020	4,093	-9,686	9.1%	-16.5%
Other sectors	140,798	3,259	2,389	2.4%	1.7%
Total loans	**2,327,400**	**55,704**	**60,238**	**2.5%**	**2.7%**

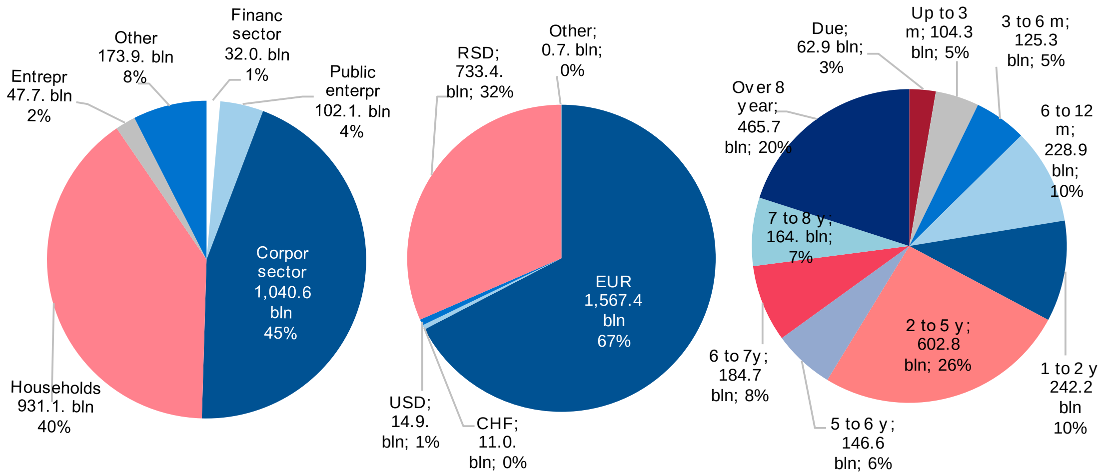
Source: NBS.

Gross lending growth was the most pronounced in the corporate (up by RSD 17.4 bn or 1.7% q-o-q) and household segments (up by RSD 11.7 bn or 1.3% q-o-q). Increase in lending to the corporate sector was recorded in terms of investment loans. As was the case earlier, the increase in loans to households is largely attributable to the rise in cash loans (mainly dinar ones), which recorded the highest share in total household loans – 47.0%, with a 4.4% growth rate in Q2 2019. Housing loans (the bulk of them being FX-indexed) recorded a decline of RSD 9.1 bn and the rate of 2.3% (with the share of 40.9%), which is a consequence of the implementation of the Law on the Conversion of Housing Loans Indexed to Swiss Francs. The only gross lending decline in nominal terms was recorded in the sector of Other legal persons (for Companies in bankruptcy).

The currency structure of the Serbian banking sector's loan portfolio is still dominated by foreign currency. At end-Q2 2019, FX and FX-indexed loans accounted for 68.5%. The prevalent currency of loan indexation in Serbia was the euro, with EUR loans making up 67.3% in total loans (98.3% of total gross FX and FX-indexed loans), followed by USD and CHF loans with 0.6% and 0.5% (0.9% and 0.7% of total gross FX and FX-indexed loans, respectively). Compared to March 2019, gross CHF loans declined RSD 51.2 bn in nominal terms.

At end-Q2 2019, dinar loans made up 31.5% of total gross loans. Observed by sector, households accounted for the bulk of dinar loans (57.5%), while the share of the public non-financial sector was the smallest (6.8%), with the exception of foreign entities (0.5%). By loan category, dinar loans accounted for the major portion of cash and consumer loans (99.3% and 53.6% respectively), and the smallest share of housing and investment loans (0.3% and 8.0% respectively). Despite the prolonged upward trend of dinar cash loans, the share of cash loans in total loans equalled 18.8% at end-June 2019 (18.5% in March 2019).

Chart 3.3 **Banking sector gross loan portfolio structure**
(in RSD bn)
(30 June 2019)

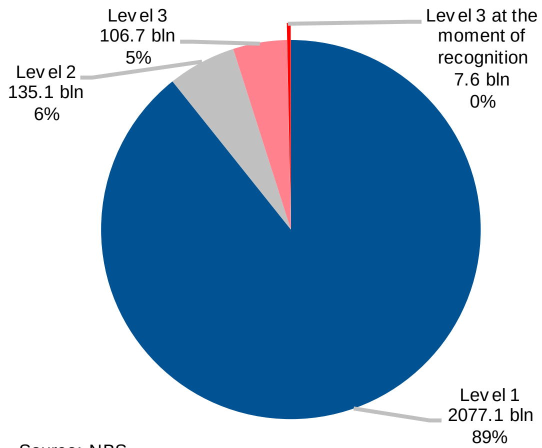


Source: NBS.

Observed by the remaining maturity, the structure of gross loans did not change significantly – the share of long-term gross loans was almost unchanged (77.7% in March, 77.6% in June), while the share of short-term loans declined (from 18.7% to 18.3%), and overnight loans rose (from 0.9% to 1.4%). The share of matured loans was unchanged (2.7%).

Since the start of implementation of IFRS 9 – Financial instruments on 1 January 2018 the NBS has been monitoring the effects of this standard in the area of classification, valuation and calculation method for impairment of financial instruments. According to data for Q2 2019, the prevailing share in the structure of gross loans is that of loans classified in Stage 1 (89.2%), while a significantly lower share was recorded for loans classified in Stage 2 and Stage 3 (5.8% and 4.6%, respectively).

Chart 3.3.1 **Gross loans structure per level of impairment**
(30 June 2019)



Source: NBS.

3.4 Non-performing loans

Monitoring the level and trend of non-performing loans (NPLs) is vital for identifying potential problems in the collection of receivables and monitoring of credit risk, as these loans and the indicators associated with them may signal deterioration in the quality of the loan portfolio of the banking sector. Further analysis of NPLs in relation to allowances for their impairment, regulatory provisions and capital provides insight into the banking sector's capacity to absorb losses arising from NPLs.

According to the methodology applied by the NBS, an NPL means the total outstanding debt under an individual loan (including the amount of arrears):

- where the payment of the principal or interest is delayed 90 days or longer since the initial maturity;

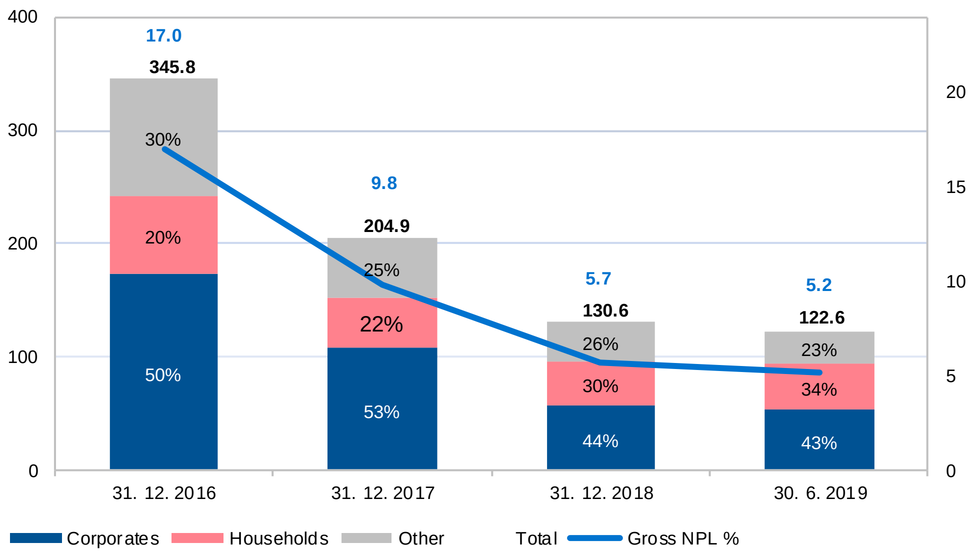
- where 90 days of interest payments (or higher) have been added to the loan balance, capitalised, refinanced or delayed by agreement;

- where payments are less than 90 days overdue, but the bank has assessed that the borrower's repayment ability has deteriorated and doubts that the payments will be made in full.

Gross NPLs

In Q2 2019, the banking sector's total gross NPLs decreased by RSD 2.7 bn to RSD 122.6 bn at end-June. During this quarter, gross NPLs saw a decline of RSD 1.7 bn on account of assignment and of RSD 10.7 bn on account of collection, while write-offs accounted for an additional reduction of RSD 3.0 bn. The banking sector's new gross NPLs in Q2 2019 amounted to RSD 13.1 bn.

Chart 3.4.1 **Gross non performing loans (NPLs)**
(in RSD bn)



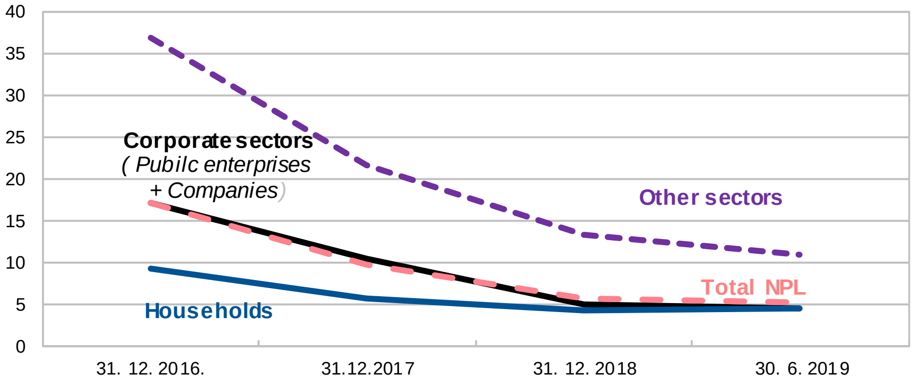
Source: NBS.

The fall in gross NPLs by 2.2%, along with a rise in total loans by 2.4%, pushed the share of NPLs in total gross loans further down by 0.3 pp q-o-q, to 5.2%, which is their new historic low since the introduction of the uniform definition of a non-performing loan and mandatory reporting in 2008.

Despite a decline of RSD 2.4 bn, the major part of gross NPLs are still in the corporate segment (RSD 49.3 bn at end-June 2019). In addition to that, NPLs of companies in bankruptcy and other legal persons in bankruptcy stood at RSD 20.2 bn.

In the household sector, gross NPLs stood at RSD 41.2 bn, or 33.6% of total gross NPLs.

Chart 3.4.2 **NPL ratio for the main sectors**
(in %)



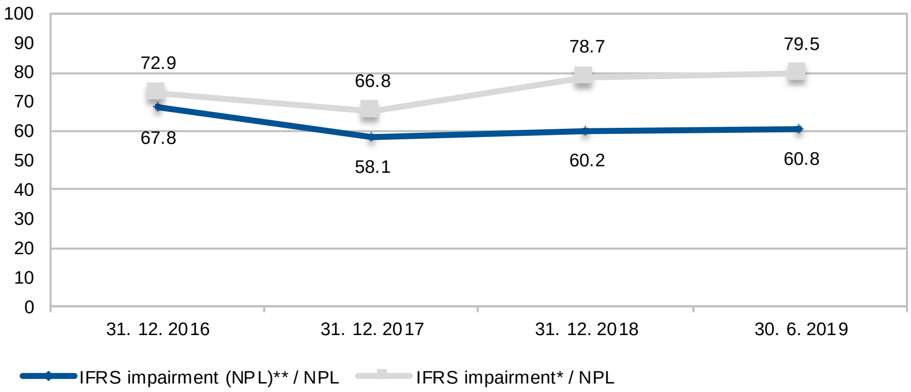
Source: NBS.

NPL coverage

At end-Q2 2019 the coverage of total gross NPLs with allowances for impairment, despite a high write-off amount, was kept relatively high at 60.8%.

The Decision Amending the Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items, among other things, repealed the banks' obligation to calculate reserve for estimated losses which may be incurred on account of balance sheet assets and off-balance sheet items.

Chart 3.4.3 **NPL coverage**
(in %)



* Total loan provision
** Provision for non-performing loans

Source: NBS.

Corporate NPLs

At end-Q2 2019, gross corporate NPLs equalled RSD 49.3 bn, down by RSD 2.4 bn or 4.7% q-o-q, mainly due to: assignment (RSD 0.4 bn), collection (RSD 2.7 bn) and write-offs (RSD 0.8 bn).[6]

Table 3.4.1 **Changes in gross NPLs by main economic sectors**

(in RSD mn)

	Amount	Change relative to prior periods			
		Nominal		Relative	
	30. 6. 2019	31. 3. 2019	31. 12. 2018	31. 3. 2019	31. 12. 2018
Agriculture	1,693	161	-194	10.5%	-10.3%
Manufacturing	17,811	143	-1,690	0.8%	-8.7%
Construction	8,168	-595	-1,605	-6.8%	-16.4%
Trade	8,967	-520	-619	-5.5%	-6.5%
Transport, hotels/restaurants, communications	2,915	-147	-255	-4.8%	-8.0%
Real estate	9,673	-1,302	529	-11.9%	5.8%

Source: NBS.

By sector, the biggest share in total corporate NPLs continued to be held by manufacturing (36.1%, with a 5.3% gross NPL ratio), followed by real estate (19.6%, with a 9.0% gross NPL ratio), trade (18.2%, with a 2.8% gross NPL ratio) and construction (16.6%, with a 7.7% gross NPL ratio). During this quarter, the NPL ratio markedly declined in all sectors (except manufacturing and agriculture). Real estate business recorded the most significant fall (2.2 pp).

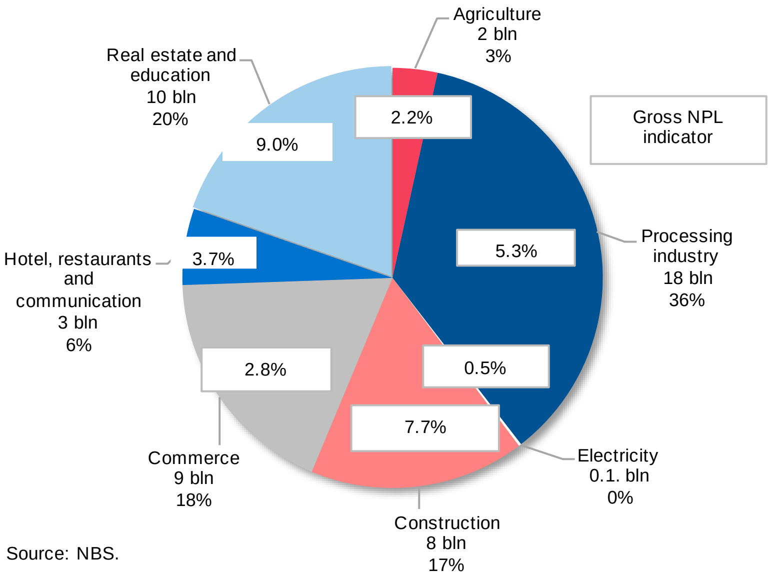
Table 3.4.2 **Corporate NPL ratio by sector**
(in %)

		Change relative to prior periods (pp)	
	30. 6. 2019	31. 3. 2019	31. 12. 2018
Agriculture	2.2%	0.2	-0.1
Manufacturing	5.3%	0.1	-0.5
Construction	7.7%	-0.9	-2.7
Trade	2.8%	-0.2	-0.2
Transport, hotels/restaurants, communications	3.7%	-0.3	-0.4
Real estate	9.0%	-2.2	-0.4

Source: NBS.

[6] Calculated based on the NPL 3 report which banks submit to the NBS.

Chart 3.4.4 **NPL structure of private corporates**
(30 June 2019)



Source: NBS.

Natural persons' NPLs[7]

Measuring 4.4% at end-Q2 2019, i.e. unchanged from a quarter earlier, the share of gross NPLs of natural persons remained below the average of the total portfolio.

At end-Q2 2019, natural persons' NPLs equalled RSD 46.2 bn, having edged up slightly (1.2%) q-o-q. Cash loans recorded the most significant increase in NPLs (by 7.7%) at the rate of total cash loan growth of 4.8%. Their share in total gross loans to natural persons amounted to 44.9% at end-June 2019. At the same time, the share of cash loans in total NPLs to natural persons increased to 42.1% at end-June 2019 (39.5% in the previous quarter). On the other hand, the gross NPL ratio of cash loans recorded relatively low values (4.1% at end-June 2019 while on 31 March 2019 it equalled 4.0%).

Table 3.4.3 **Changes in gross non-performing household loans by category**
(in RSD mn)

	Amount	Change relative to prior periods			
		Nominal		Relative	
	30. 6. 2019	31. 3. 2019	31. 12. 2018	31. 3. 2019	31. 12. 2018
Housing loans	16,096	-595	-1,400	-3.6%	-8.0%
Cash loans	19,433	1,391	2,922	7.7%	17.7%
Credit cards	1,881	-124	214	-6.2%	12.8%
Current account overdrafts	1,732	-133	-54	-7.1%	-3.0%
Consumer loans	444	-54	-101	-10.8%	-18.5%
Other	6,577	40	-330	0.6%	-4.8%
Total	**46,162**	**525**	**1,251**	**1.2%**	**2.8%**

Source: NBS.

[7] Households, entrepreneurs, private households with employed persons and registered farmers.

The category of housing construction loans accounted for 36.3% of total loans and 34.9% of total gross NPLs.

Table 3.4.4 **Gross NPL ratio for households by category**
(in %)

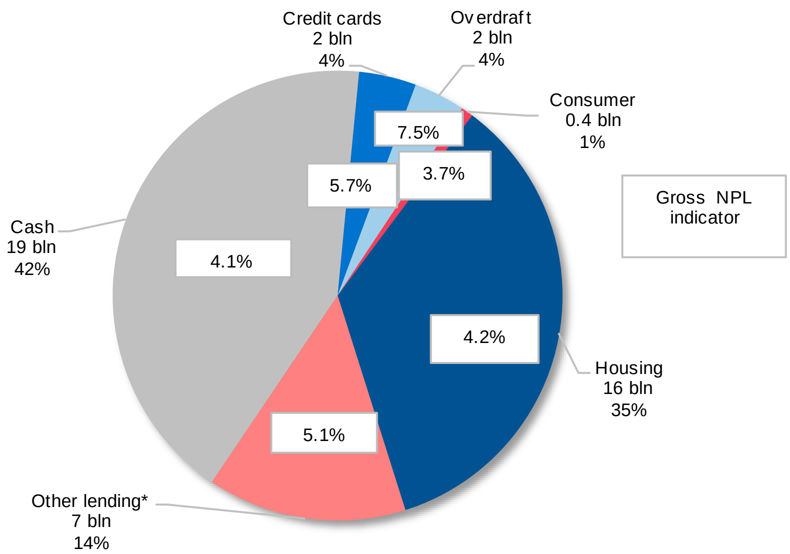
		Change relative to prior periods (pp)	
	30.6.2019	31.3.2019	31.12.2018
Housing construction	4.2%	-0.1	-0.3
Cash loans	4.1%	0.1	0.3
Credit cards	5.7%	-0.4	0.7
Current account overdrafts	7.5%	-0.4	-0.3
Consumer loans	3.7%	0.1	0.4

Source: NBS.

The highest gross NPL ratio in the natural persons' segment at end-June 2019 (7.5%) was recorded in the category of current account overdrafts (which accounted for 2.2% of total loans to natural persons and for 3.8% of total NPLs of natural persons). The next were credit cards, with the ratio of 5.7% (making up 3.1% of total loans to natural persons and 4.1% of NPLs of natural persons), housing loans with 4.2% and cash loans with 4.1%.

When observing NPLs to natural persons in relation to allowances for their impairment, housing loans are a category with the lowest allowances for impairment (40.2% relative to gross NPLs), due to generally better collateral coverage. In current account overdrafts, credit cards and consumer loans, allowances for impairment are much higher (74.0%, 71.0% and 65.2%, respectively).

Chart 3.4.5 **NPL structure of natural persons**
(30 June 2019)



Other lending = agriculture, other activities, vehicle purchase loans and other loans
Source: NBS.

Concentration risk

At end-2018 the NBS adopted regulatory measures aimed at preventing new NPLs and preserving financial stability as a response to unsecured non-purpose household loans with unreasonably long maturities. These measures cover cash, consumer and other household loans (with the exception of housing loans and current account overdrafts) with the repayment term of eight years or longer. In accordance with the Decision on Managing Concentration Risk Arising from Bank Exposure to Specific Products, concentration risk indicator was introduced as an additional regulatory and supervisory instrument of the NBS.

Concentration risk indicator is the ratio of cash, consumer and other household loans with contracted maturity longer than eight years (except for housing loans and current account overdrafts) and capital, increased by dinar liabilities whose remaining maturity is over five years. At end-Q2 2019, the concentration risk indicator of the Serbian banking sector was 20.80%, which is significantly below the prescribed 50% for the observed year and is a reduction of 2.2 pp compared to this indicator at end-March 2019. The banking sector household credit exposure was reduced by 11.0% (from RSD 146.4 bn to RSD 130.2 bn) in the observed period (June–March).

4 BANKING SECTOR LIABILITIES

4.1 Structure of the sources of funding

Deposits[8] were the primary source of bank funding in Serbia, making up 71.6% of total liabilities. At end-Q2 2019, own sources of funding made up 17.4% and borrowing 5.9% of total liabilities.

Table 4.1 **Change in key items of banking sector liabilities**
(in RSD mn)

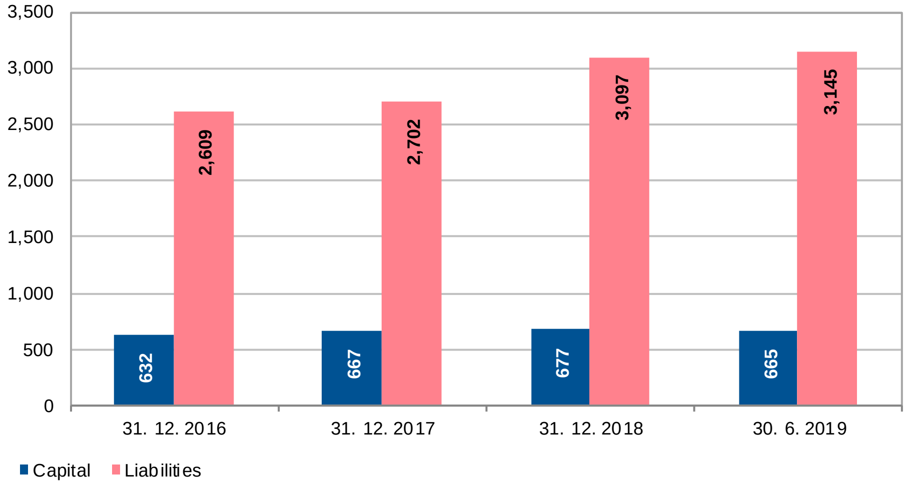
	Amount	Change relative to prior periods			
		Nominal		Relative	
	30. 6. 2019	31. 3. 2019	31. 12. 2018	31. 3. 2019	31. 12. 2018
Deposits and other liabilities	3,020,409	27,875	10,898	0.9%	0.4%
to banks, OFO and the central bank	*473,375*	*20,086*	*-6,385*	*4.4%*	*-1.3%*
to other customers	*2,547,034*	*7,789*	*17,283*	*0.3%*	*0.7%*
Liabilities under securities[1)]	331	-257	-230	-43.8%	-41.0%
Subordinated liabilities	30,646	1,569	-4,302	5.4%	-12.3%
Provisions	11,057	-1,282	-411	-10.4%	-3.6%
Share capital and other capital	380,620	-16,338	-12,610	-4.1%	-3.2%
Profit	83,516	-4,647	-14,624	-5.3%	-14.9%
Loss	26,771	2,709	2,967	11.3%	12.5%
Reserves and unrealised losses	227,393	6,553	18,254	3.0%	8.7%
Other	82,779	6,413	41,873	8.4%	102.4%
Total liabilities	**3,809,980**	**17,178**	**35,882**	**0.5%**	**1.0%**

Source: NBS.

Total liabilities of the banking sector rose by RSD 34.3 bn (or 1.1%) q-o-q. Increase in liabilities is mostly the result of the rise in item Deposits and other financial liabilities towards banks, other financial organisations and the central bank by RSD 20.1 bn (4.4%) and in item Deposits and other financial liabilities to other clients by RSD 7.8 bn (0.3%).

[8] Including transaction and other deposits as part of items: Deposits and other liabilities to banks, other financial organisations and the central bank and Deposits to other clients.

Chart 4.1 **Banking sector capital and liabilities**
(in RSD bn)



Source: NBS.

In Q2 2019, the total capital of the banking sector declined by RSD 17.1 bn in nominal terms (i.e. by 2.5%), with the share of capital in total balance sheet liabilities also decreasing (from 18.0% to 17.4%). Within capital structure, the most significant changes were recorded for: Common Equity Tier 1 (down by RSD 16.3 bn – on account of banking sector consolidation and the process of acquisitions in the banking market), reserves (up by RSD 6.6 bn) and profit (down by RSD 4.6 bn – mainly for provisioning).

In terms of currency structure, Q2 2019 saw an increase in dinar sources of funding (including capital) from 42.7% to 43.6%. As regards the FX and FX-indexed portion of liabilities, EUR-denominated liabilities remained dominant, making up 91.9% of total FX liabilities, while the rest were mostly liabilities in USD (4.6%) and CHF (2.5%).

4.2 Deposits

Total deposits with banks stood at RSD 2,728.4 bn at end-Q2 2019, up by RSD 20.7 bn (0.8%) q-o-q. The increase is mainly attributable to the rise in other deposits, mostly with foreign banks (by RSD 16.9 bn). The main depositors are the household sector with 51.2% and the corporate sector with 25.2%.

At end-Q2 2019, dinar deposits rose RSD 49.8 bn, while FX and FX-indexed deposits declined by RSD 29.2 bn. The share of FX and FX-indexed deposits in total deposits edged down from 68.4% to 66.8%. The euro was the dominant currency, making up 91.1% of total FX and FX-indexed deposits. The rest of FX and FX-indexed deposits were mainly in USD (5.3%) and CHF (2.6%).

In terms of initial (agreed) maturity, demand deposits were still dominant (62.9%), followed by deposits maturing in up to one year (23.8%), while 13.3% of all deposits were agreed for over one year term.

Short-term deposits (observed by the remaining maturity) made up the bulk of bank deposits in Serbia. Demand deposits made up over a half of all deposits (63.1%), followed by deposits with the remaining maturity of up to one year with 29.5%, while deposits with the remaining maturity of over one year accounted for 7.4% of total deposits.

Table 4.2 **Changes in deposits levels**
(in RSD mn)

	Amount	Change relative to prior periods			
		Nominal		Relative	
	30. 6. 2019	31. 3. 2019	31. 12. 2018	31. 3. 2019	31. 12. 2018
Finance and insurance sector	82,366	10,857	3,569	15.2%	4.5%
Public enterprises	99,090	-71,180	-90,538	-41.8%	-47.7%
Companies	687,030	32,072	3,384	4.9%	0.5%
Public sector	77,021	7,039	37,465	10.1%	94.7%
Households	1,396,635	32,501	67,545	2.4%	5.1%
Foreign entities and foreign banks	244,387	4,703	-2,711	2.0%	-1.1%
Other sectors	141,899	4,695	-22,332	3.4%	-13.6%
Total deposits	**2,728,427**	**20,688**	**-3,617**	**0.8%**	**-0.1%**

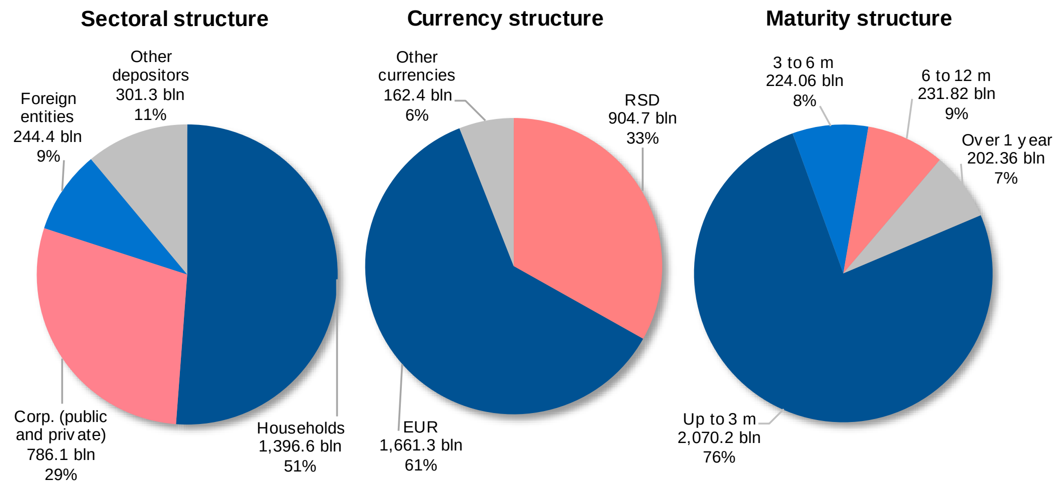
Source: NBS.

At end-Q2 2019, total household deposits in foreign currency amounted to RSD 1,173.5 bn (rising by 1.6% q-o-q) and consisted mostly of savings deposits (61.1%) and transaction deposits (36.6%).

Compared to the end of the previous quarter, household savings deposits[9] increased by RSD 3.8 bn (0.5%) to RSD 779.2 bn at end-Q2 2019. This increase can be attributed to the rise in dinar savings deposits (by RSD 3.7 bn). At end-June 2019, FX savings were dominant in total household savings deposits, making up 92.0%, while dinar savings accounted for 8.0%.

[9] Accounts 402 and 502 in the Chart of Accounts, sector 6 (domestic and foreign natural persons – residents)

Chart 4.2 **Banking sector deposits structure**
(30 June 2019)



Source: NBS.

4.3 Total borrowing of banks

At end-Q2 2019, total credit borrowing of the banking sector amounted to RSD 286.0 bn, an increase of RSD 7.1 bn relative to the previous quarter (2.5%).

Table 4.3 **Changes in the level of bank borrowing**
(in RSD mn)

	Amount	Change relative to prior periods			
		Nominal		Relative	
	30. 6. 2019	31. 3. 2019	31. 12. 2018	31. 3. 2019	31. 12. 2018
REPO	0	-343			
Overnight loans	49,735	-1,893	1,727	-3.7%	3.6%
Loans received	225,425	6,690	12,168	3.1%	5.7%
Other financial liabilities	10,824	2,609	184	31.8%	1.7%
Total borrowing	**285,984**	**7,063**	**14,080**	**2.5%**	**5.2%**

Source: NBS.

The largest individual item in total credit borrowing were loans taken (primarily from parent banks, related banks in the same group and international financial institutions), accounting for 78.8% (78.4% at end-Q1), which rose RSD 6.7 bn q-o-q in nominal terms. The next largest item were liabilities under overnight loans which accounted for 17.4% (end of the previous quarter: 18.5%), after a decline of RSD 1.9 bn in Q2. Other financial liabilities made up 3.8% (end of the previous quarter: 2.9%), having increased by RSD 2.6 bn.

In this segment, the biggest creditors of banks were foreign persons with 71.5% and the general government sector with 16.4% (primarily government bodies and organisations). The dominant currency of borrowing was the euro, accounting for RSD 252.3 bn (end of the previous quarter: RSD 248.5 bn) or 88.2% of total credit borrowing. Liabilities in dinars stood at RSD 29.5 bn (end of the previous quarter: RSD 24.9 bn) or 10.3% of total credit borrowing, while banks owed RSD 2.0 bn and RSD 1.6 bn in CHF and USD, respectively (end of the previous quarter: RSD 2.2 bn each), or 0.7% and 0.6% of total credit borrowing, respectively.

4.4 External liabilities

At end-Q2 2019, banks' total external liabilities under credit operations stood at RSD 204.5 bn, down by RSD 2.6 bn (1.3%) q-o-q. A decline was recorded only with overnight loans (by RSD 9.5 bn).

This segment remained highly concentrated, given that of the 12 banks which borrowed externally (the largest item with the 93.7% share in total external debt), five banks accounted for over 77% of the total debt. Also, overnight foreign loans were recorded only for three banks, with one bank having more than 84%.

Long-term loans held a dominant 81.9% share in the maturity structure of external borrowing (at the end of the previous quarter: 79.4%), i.e. 46.5% of all borrowings were extended with the maturity of over five years.

Table 4.4 **Changes in bank external borrowing**
(in RSD mn)

	Amount	Change relative to prior periods			
		Nominal		Relative	
	30. 6. 2019	31. 3. 2019	31. 12. 2018	31. 3. 2019	31. 12. 2018
Overnight loans	10,734	-9,511	-16,660	-47.0%	-60.8%
Loans received	191,728	6,740	10,470	3.6%	5.8%
Other financial liabilities	2,079	139	-514	7.1%	-19.8%
Total borrowing	**204,541**	**-2,633**	**-6,704**	**-1.3%**	**-3.2%**

Source: NBS.

External borrowing was primarily euro-denominated – 97.6%, unchanged from the quarter before (97.4%), CHF and RSD borrowing accounted for 0.9% and 1.3% respectively.

4.5 Subordinated liabilities

Total subordinated liabilities of banks in Serbia reached RSD 30.6 bn at end-Q2 2019, posting a RSD 1.7 bn decrease relative to end-Q1.

In terms of creditors, total subordinated liabilities were structured in the following manner: liabilities to foreign banks accounted for 77.4%, liabilities to foreign legal persons – 20.6% and liabilities to corporates – 2.0%.

The currency structure was as follows: the share of subordinated liabilities in euros increased to 85.1%, liabilities in Swiss francs edged down to 13.0%, liabilities in dinars made up 1.5%, and the remaining 0.4% were in roubles.

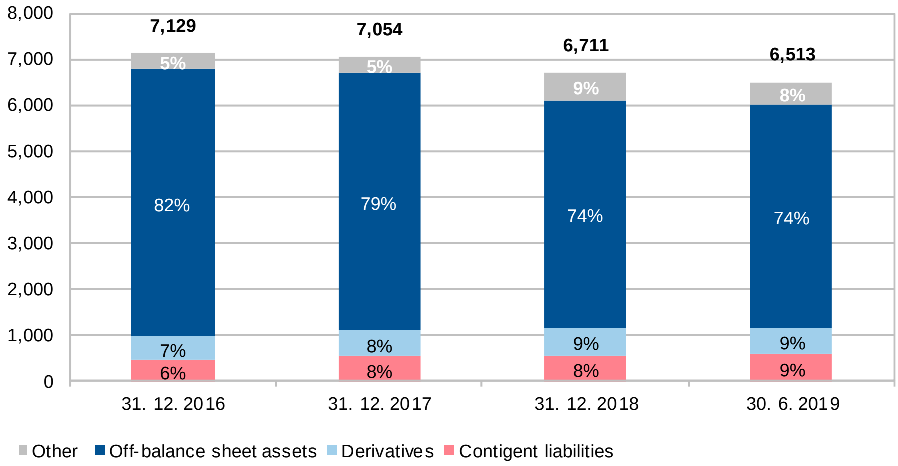
Subordinated liabilities were highly concentrated – of the 12 banks with subordinated debt, one bank accounted for around 31% of all subordinated liabilities, and the top five banks for around 78% of total subordinated liabilities.

Given the regulatory restrictions on inclusion of subordinated liabilities in Tier 2 and/or regulatory capital, banks included 83.3% of stated subordinated debt in their Tier 2 capital.

5 OFF-BALANCE SHEET ITEMS

At end-Q2 2019, total off-balance sheet items of the banking sector stood at RSD 6,512.7 bn, down by 3.2% from end-Q1, mostly on account of a decrease in item Securities received as collateral (by RSD 160.5 bn) and Other off-balance sheet assets (by RSD 111.4 bn). Within item Other off-balance sheet assets, whose 74.5% made up the bulk of total off-balance sheet, the biggest fall was recorded in Received material collateral (RSD 96.1 bn). Other important off-balance sheet items are Derivatives with an 8.8% share and Issued guarantees and other sureties with 5.5%. In Q2 2019 the former fell by 4.1% while the latter rose by 4.4%.

Chart 5.1 **Off-balance sheet items**
(in RSD bn, in %)



Source: NBS.

As of 1 January 2018, the amendments and supplements to the Chart of Accounts introduced two new accounts for disclosing written-off financial assets, which were carried over to off-balance sheet records (in dinars and foreign currency) for the purpose of reporting in accordance with the Decision on the Accounting Write-off of Bank Balance Sheet Assets. At end-Q2 2019, the banking sector disclosed RSD 214.5 bn on these accounts, up by RSD 5.8 bn or 2.8% q-o-q.

Risk-free items still accounted for the bulk (85.2%) of off-balance sheet items: material collateral received, guarantees and other sureties accepted for the settlement of borrowers’ liabilities, custody operations and other off-balance sheet assets.

At end-Q2 2019, the classified part of off-balance sheet items (i.e. which is considered risk-bearing) amounted to RSD 962.2 bn (an increase by RSD 19.0 bn or 2.0%).

At end-Q2 2019, contingent liabilities equalled RSD 588.8 bn (rising by RSD 36.3 bn or 6.6% q-o-q) and made up 9.0% of total off-balance sheet items (8.2% at end of the previous quarter).

Table 5.1 **Changes in off-balance sheet items in the Serbian banking sector**
(in RSD mn)

	Amount	Change relative to prior periods			
		Nominal		Relative	
	30. 6. 2019	31. 3. 2019	31. 12. 2018	31. 3. 2019	31. 12. 2018
Issued guarantees and other sureties	360,415	15,133	17,006	4.4%	5.0%
Receivables from derivatives	573,658	-24,669	-44,220	-4.1%	-7.2%
Contingent liabilities and other irrevocable commitments	228,381	21,146	13,256	10.2%	6.2%
Securities received as collateral	51,469	-160,542	-154,829	-75.7%	-75.1%
Sureties for liabilities	124,624	5,521	15,342	4.6%	14.0%
Written off financial assets	214,535	5,843	6,412	2.8%	3.1%
Other off-balance sheet assets	4,848,798	-111,367	-92,004	-2.2%	-1.9%
Other	110,790	33,925	40,533	44.1%	57.7%
Total off-balance assets	**6,512,671**	**-215,009**	**-198,504**	**-3.2%**	**-3.0%**

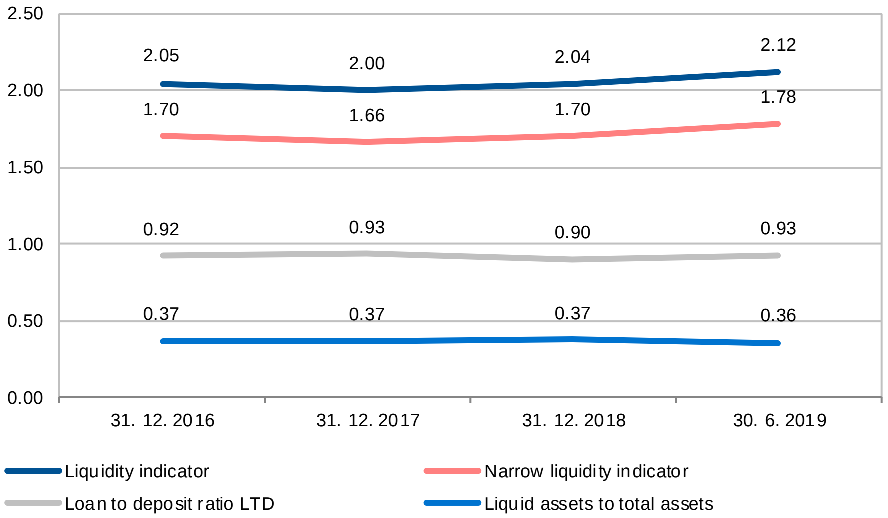
Source: NBS.

6 BANK LIQUIDITY

Based on reference values of liquidity indicators, Serbia's banking sector has been characterised by considerable excess liquidity for a long time now. At end-Q2 2019, the average monthly liquidity ratio was 2.12, twice higher than the regulatory floor of 1.0. The narrow liquidity ratio at banking sector level measured 1.78 (regulatory floor – 0.7). The share of liquid assets in total banking sector balance sheet assets is stable, reaching 35.9% at end-Q2 2019.

At end-Q2 2019, banks' investments in NBS repo securities increased relative to March 2019, from RSD 15.0 bn to RSD 40.0 bn, as did the number of banks which invested in repo securities (seven banks). As for government securities, their portfolio decreased to RSD 628.1 bn at end-June 2019, i.e. it was 1.5% lower relative to end-March.

Chart 6.1 **Banking sector liquidity indicators**



Source: NBS.

To further strengthen the resilience of the banking sector,[10] the liquidity coverage ratio was introduced. This indicator is the ratio of the liquidity buffer (made up of high-quality liquid assets) and net outflow of a bank's liquid assets that would occur in the 30 days after the calculation of this ratio in assumed stress conditions.

As of 1 January 2018, banks are required to maintain this ratio at a level not lower than 100% (prescribed floors are the same as in the European Union). As at 30 June 2019, the liquidity coverage ratio at the level of the banking sector measured 213.28%.

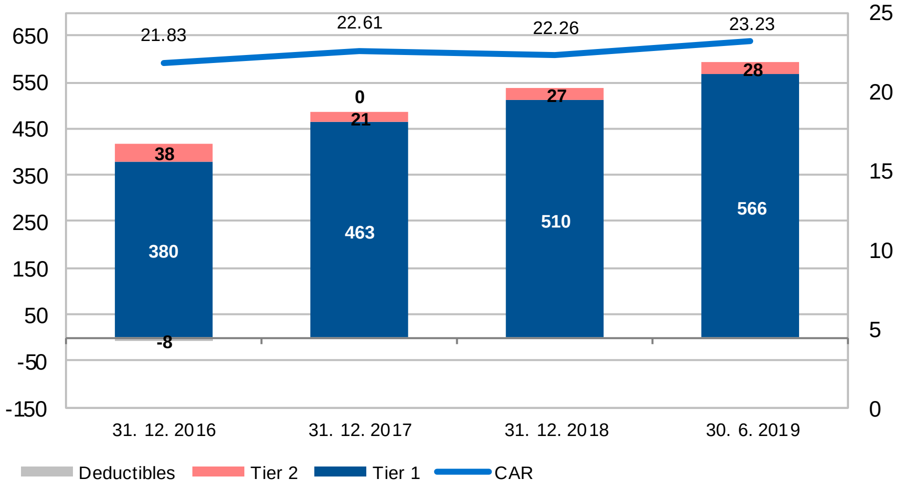
[10] The Decision on Liquidity Risk Management was adopted in December 2016 as part of the implementation of the Strategy for Introduction of Basel III Standards in Serbia.

7 CAPITAL ADEQUACY

The Serbian banking sector is well-capitalised, both from the aspect of compliance with the prescribed capital adequacy ratio,[11] and in terms of the structure of regulatory capital. At end-June 2019, the capital adequacy ratio of the Serbian banking sector averaged 23.23% (23.68% in March 2019). This is well above the NBS regulatory minimum (8%).

At end-June 2019, the Tier 1 capital ratio of the Serbian banking sector averaged 22.13% (vs. 22.61% in March 2019), and Common Equity Tier 1 capital ratio – 22.07% (vs. 22.55% in March 2019).

Chart 7.1 **Regulatory capital and CAR***
(in RSD bn, CAR in %)

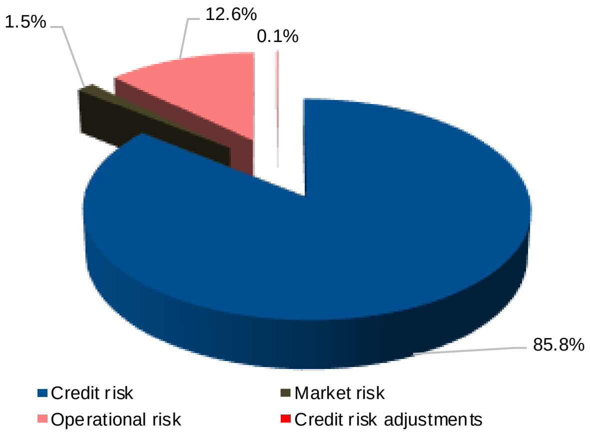


* CAR = Regulatory capital adequacy ratio
Source: NBS

[11] For the purposes of harmonisation with the relevant EU legislation in the field of banking, and to strengthen banking sector resilience, the NBS adopted new regulations in line with the requirements of Basel III standards, coming into effect as of 30 June 2017. The minimum prescribed capital adequacy ratio was reduced from 12% to 8%. In parallel, capital buffers were introduced (capital conservation buffer, countercyclical capital buffer, systemic risk buffer, capital buffer for a systemically important bank).

As capital grew more slowly than risk-weighted assets in Q2 2019 (0.7% vs. 2.7%), the capital adequacy ratio slightly declined (by 0.45 pp). The increase in risk-weighted assets by RSD 66.3 bn stemmed from a rise in credit risk-weighted assets by RSD 68.5 bn (mainly in the part of exposure to companies and natural persons). Market-risk weighted assets increased (by RSD 1.5 bn), primarily with regard to foreign exchange risk exposure (by RSD 2.8 bn), whereas it declined by RSD 4.0 bn on account of operational risk exposure.

Chart 7.2 **RWA by risk type**
(in %)
(30 June 2019)



Source: NBS.

In the structure of risk-weighted assets, the dominant share referred to credit risk (85.8%), taking into account banks' traditional business models which include reliance on lending to corporates and households. Next was operational risk with a share of 12.6%, while the shares of market risks and credit valuation adjustment risk were negligibly low – 1.5% and 0.1%, respectively.

In Q2 2019, regulatory capital rose 0.7% (in absolute amount: RSD 4.3 bn), while a growth rate of 10.5% was recorded for the whole of 2019. Regulatory capital of the banking sector at the end of the reporting quarter in 2019 equalled RSD 593.7 bn.

The increase in regulatory capital is mainly attributable to a decrease in deductions from a bank's Common Equity Tier 1 on account of the bank's investment in Common Equity Tier 1 instruments of financial sector entities in which the bank has a significant investment (in this instance, investment in another bank) due to bank takeover. The decrease in this item equalled RSD 14.8 bn.

At end-Q2 2019, Tier 1 capital of the banking sector[12] stood at RSD 565.5 bn, up by 0.5% (RSD 2.6 bn) from March 2019. Tier 2 capital of the banking sector increased relative to the end of the previous quarter, by RSD 1.7 bn (6.6%) and stood at RSD

[12] According to Basel III regulations, among other things, Tier 1 and Tier 2 capital are not reduced by the appropriate part of deductibles from regulatory capital, rather each of them has its own deductibles.

28.2 bn on account of a RSD 1.7 bn increase in subordinated liabilities included in Tier 2 capital.

Regulatory capital consists of: Tier 1 capital, which made up 95.3% and Tier 2 capital, measuring 4.7%. Tier 1 capital, which is the highest quality segment, is made up of Common Equity Tier 1 capital (99.7%) and Additional Tier 1 capital (0.3%).

The package of regulations which the NBS adopted at end-2018 also prescribed an obligation to maintain a certain level of capital depending on household credit risk[13] in terms of loan purpose, availability of collateral, repayment capacity bearing in mind total indebtedness and justifiability of the payment term depending on loan purpose or lack of any specific purpose. Amendments to the Decision on Capital Adequacy of Banks prescribed new deductibles from Common Equity Tier 1 capital in the event: that 60% debt-to-income ratio has been exceeded, loan with payment term of eight years or longer has been approved (for 2019, or seven years for 2020 and six years for 2021) and in the event of granting a consumer loan for the purchase of motor vehicles whose contracted payment term is eight years or longer. As of 30 June 2019, banks disclosed an amount of RSD 4.3 bn as a deductible from Common Equity Tier 1 on this account.

In accordance with the Amendments to the Decision on Reporting Requirements for Banks, adopted in December 2016 and implemented as of 30 June 2017, the leverage ratio is calculated as a ratio of Tier 1 capital and a bank's total exposure amount. As at 30 June 2019, the leverage ratio at banking sector level measured 13.79%,[14] sustaining the stable upward trend of this ratio since its introduction.

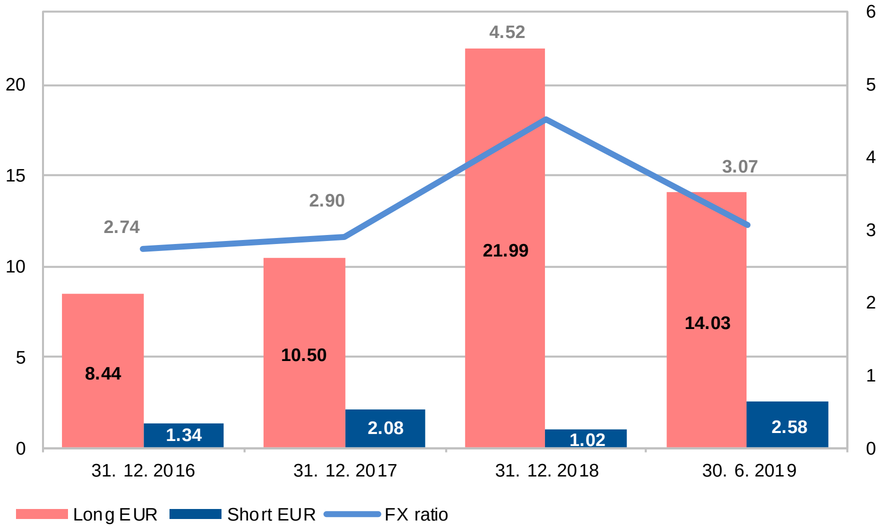
[13] Consumer, cash or other loan (which is not a housing loan, or current account overdraft).
[14] According to Basel III standards, the leverage ratio floor was set at 3%.

8 FOREIGN EXCHANGE RISK

At end-Q2 2019, Serbia's banking sector posted a long open FX position worth RSD 18.1 bn (excluding the position in gold). Eighteen banks ended June 2019 with a net long open FX position, while the remaining eight banks showed a net short open FX position.

On 30 June 2019, banks in Serbia operated at net long open positions in euros and US dollars (RSD 14.03 bn and RSD 2.14 bn, respectively), and a net short open position in Swiss francs (RSD 1.33 bn).

Chart 8.1 **Quarterly breakdown of the sector's long and short FX position (in EUR) and foreign exchange risk ratio**
(in RSD bn)



Source: NBS.

At end-June 2019, the foreign exchange risk ratio for the banking sector equalled 3.07%, indicating relatively low foreign exchange risk compared to the regulatory cap (20% of banks' capital).

9 NBS REGULATORY ACTIVITY

Within its regulatory competences in the area of bank supervision, the NBS did not issue any regulations in Q2 2019.