

# **BANKING SUPERVISION**

**First Quarter Report 2008**

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

### Structure of the Serbian banking sector as at 31 March 2008

#### Number of banks

Following the acquisition of the National Bank of Greece, Beograd by Vojvodjanska banka a.d. Novi Sad, the number of banks operating in the Serbian market at end-Q1 2008 declined by one from a quarter earlier, down to a total of 34.

Table 1 – Number of banks

|                 | 31 Dec 2006 | 31 Dec 2007 | 31 Mar 2008 |
|-----------------|-------------|-------------|-------------|
| Number of banks | 37          | 35          | 34          |

#### Network of banks

In late March 2008, the overall banking network included a total of 2,486 business units, branches, branch offices, teller units, agencies and exchange bureaus, which is an increase by 51 on end-Q4 2007.

Table 2 – Organizational network of banks

| Description             | 31 Dec 2006  | 31 Dec 2007  | 31 Mar 2008  |
|-------------------------|--------------|--------------|--------------|
| No. of business units   | 82           | 80           | 74           |
| No. of branches         | 413          | 519          | 535          |
| No. of branch offices   | 1,387        | 1,544        | 1,583        |
| No. of teller units     | 276          | 258          | 262          |
| No. of agencies         |              | 33           | 31           |
| No. of exchange bureaus |              | 1            | 1            |
| <b>Total</b>            | <b>2,158</b> | <b>2,435</b> | <b>2,486</b> |

#### Banking sector employment

In Q1, total banking-sector employment in Serbia was 30,554, which is an increase by 308 from end-Q4 2007.

The number of employees in eight banks declined (primarily in Vojvodjanska banka a.d. Novi Sad, by 227), while 26 banks increased their staff numbers (primarily Eurobank EFG stedionica a.d. Beograd – by 120 and ProCredit Bank a.d. Beograd – by 117).

## Banks by type of ownership

At end-March 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 bln | 31 Dec 2006  |            |         | 31 Dec 2007  |            |         | 31 Mar 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    | 4            | 654,015    | 40.5    |
| 50–100                         | 3            | 183,698    | 15.7    | 8            | 525,822    | 33.7    | 8            | 571,255    | 35.4    |
| 10–50                          | 15           | 405,223    | 34.7    | 15           | 357,301    | 22.9    | 13           | 331,886    | 20.5    |
| under 10                       | 15           | 96,775     | 8.3     | 8            | 46,139     | 2.9     | 9            | 58,287     | 3.6     |
| Total                          | 37           | 1,169,271  | 100.0   | 35           | 1,561,822  | 100.0   | 34           | 1,615,443  | 100.0   |

Five banks with the largest end-March balance sheet total and ten banks with the largest end-March balance sheet total accounted for 46.5% and 69.3%, respectively, of the overall balance sheet total of the banking sector. HHI of concentration of balance sheet total rose on a quarter earlier (606) and equalled 622.

As at 31 March 2008, banks in majority foreign ownership accounted for RSD 1,211.9 billion or 75.0%, banks in the majority ownership of the Republic of Serbia for RSD 259.4 billion or 16.1%, and banks in majority private ownership for RSD 144.1 billion or 8.9%, of the banking sector balance sheet total.

## Banking sector balance sheet

As at 31 March 2008, balance sheet total of the banking sector stood at RSD 1,615.4 billion, which is RSD 53.6 billion or 3.4% higher than in Q4 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 (56.3%). Next in size were deposits with the National Bank of Serbia and securities refinanceable with the National Bank of Serbia (31.4%). Cash and cash equivalents made up 5.5% of balance sheet assets of the banking sector.

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

|  | 31 Dec 2006      |              | 31 Dec 2007      |              | 31 Mar 2008      |              | Growth indices for 2008 |
|--|------------------|--------------|------------------|--------------|------------------|--------------|-------------------------|
|  | Amount           | Share in %   | Amount           | Share in %   | Amount           | Share in %   |                         |
| <b>ASSETS</b>  |                  |              |                  |              |                  |              |                         |
| Cash and cash equivalents  | 77,815           | 6.7          | 104,981          | 6.7          | 89,041           | 5.5          | 85                      |
| Deposits with the central bank and securities refinanceable with the central bank                | 406,735          | 34.8         | 489,902          | 31.4         | 507,606          | 31.4         | 104                     |
| Interest and fees receivable   | 4,347            | 0.4          | 5,982            | 0.4          | 6,955            | 0.4          | 116                     |
| Lending to domestic banks  | 32,415           | 2.8          | 43,261           | 2.8          | 45,173           | 2.8          | 100                     |
| Lending to clients   | 545,059          | 46.6         | 812,647          | 52.0         | 857,489          | 53.1         | 106                     |
| Securities and other tradable investment   | 8,584            | 0.7          | 6,544            | 0.4          | 8,191            | 0.5          | 125                     |
| Investment in securities held to maturity  | 6,948            | 0.6          | 12,020           | 0.8          | 13,134           | 0.8          | 109                     |
| Share in capital and other securities available for sale   | 15,284           | 1.3          | 7,045            | 0.5          | 6,313            | 0.4          | 90                      |
| Fixed assets intended for sale and assets from discontinued operations                           | 394              | 0.0          | 334              | 0.0          | 336              | 0.0          | 101                     |
| Rebate on profit tax   | 253              | 0.0          | 523              | 0.0          | 884              | 0.1          | 169                     |
| Goodwill   |                  | 0.0          | 0                | 0.0          | 0                | 0.0          |                         |
| Intangible investments   | 5,907            | 0.5          | 6,156            | 0.4          | 6,291            | 0.4          | 102                     |
| Investment real estate   | 4,266            | 0.4          | 4,398            | 0.3          | 4,435            | 0.3          | 101                     |
| Fixed assets   | 47,038           | 4.0          | 53,160           | 3.4          | 53,452           | 3.3          | 101                     |
| Other assets, prepayments and accrued income   | 11,748           | 1.0          | 12,343           | 0.8          | 13,431           | 0.8          | 109                     |
| Deferred tax assets  | 2,478            | 0.2          | 2,526            | 0.2          | 2,712            | 0.2          | 107                     |
| Losses in excess of capital  |                  | 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>1,615,443</b> | <b>100.0</b> | <b>103</b>              |
| <b>LIABILITIES</b>   |                  |              |                  |              |                  |              |                         |
| Liabilities to domestic banks  | 63,352           | 5.4          | 79,693           | 5.1          | 89,917           | 5.6          | 110                     |
| Liabilities to clients   | 817,704          | 69.9         | 1,048,075        | 67.1         | 1,040,704        | 64.4         | 99                      |
| Liabilities in respect of interest and fees  | 980              | 0.1          | 2,786            | 0.2          | 1,560            | 0.1          | 56                      |
| Liabilities in respect of securities   | 10               | 0.0          | 2,610            | 0.2          | 2,683            | 0.2          | 103                     |
| Liabilities from profit  | 196              | 0.0          | 270              | 0.0          | 205              | 0.0          | 76                      |
| Liabilities in respect of current tax on profit  | 525              | 0.0          | 376              | 0.0          | 0                | 0.0          | 0                       |
| Liabilities in respect of fixed assets intended for sale and assets from discontinued operations | 0                | 0.0          | 0                | 0.0          | 0                | 0.0          | 0                       |
| Other operating liabilities  | 8,630            | 0.7          | 10,710           | 0.7          | 13,657           | 0.8          | 127                     |
| Provisioning   | 9,376            | 0.8          | 11,345           | 0.7          | 11,422           | 0.7          | 101                     |
| Other liabilities, accruals and deferred income  | 51,511           | 4.4          | 77,031           | 4.9          | 89,689           | 5.6          | 117                     |
| Deferred tax liabilities   | 699              | 0.1          | 557              | 0.0          | 624              | 0.0          | 112                     |
| <b>LIABILITIES</b>   | <b>952,983</b>   | <b>81.5</b>  | <b>1,233,452</b> | <b>79.0</b>  | <b>1,250,461</b> | <b>77.4</b>  | <b>101</b>              |
| Capital  | 216,288          | 18.5         | 328,370          | 21.0         | 364,982          | 22.6         | 111                     |

|                                | 31 Dec 2006      |              | 31 Dec 2007      |              | 31 Mar 2008      |              | Growth indices for 2008 |
|--------------------------------|------------------|--------------|------------------|--------------|------------------|--------------|-------------------------|
|                                | Amount           | Share in %   | Amount           | Share in %   | Amount           | Share in %   |                         |
| equity and other capital       | 182,562          | 15.6         | 272,723          | 17.5         | 298,936          | 18.5         | 110                     |
| reserves                       | 30,464           | 2.6          | 47,636           | 3.1          | 53,576           | 3.3          | 112                     |
| accumulated profit/loss        | 3,262            | 0.3          | 8,011            | 0.5          | 12,470           | 0.8          | 156                     |
| <b>TOTAL</b>                   | <b>1,169,271</b> | <b>100.0</b> | <b>1,561,822</b> | <b>100.0</b> | <b>1,615,443</b> | <b>100.0</b> | <b>103</b>              |
| <b>OFF-BALANCE SHEET ITEMS</b> | <b>1,163,308</b> |              | <b>1,579,674</b> |              | <b>1,796,651</b> |              | <b>114</b>              |

Borrowed funds made up 77.4% of banking sector balance sheet liabilities, while capital accounted for the remaining 22.6%. Deposit potential accounted for the largest portion of borrowed funds, with 61.1% of total liabilities.

Banks' capital reached RSD 365 billion (rising by RSD 37 billion or 11.1% on end-2007). Item "equity and other capital" rose by 9.6% from end-2007 to RSD 299 billion.

After rising by RSD 217.0 billion on end-2007, off-balance sheet items of banks reached RSD 1,796.7 billion. The largest single component under off-balance sheet items was "other off-balance sheet assets",<sup>2</sup> which made up 48.2% of total off-balance sheet items. Second in size was item "receivables in respect of bonds issued against foreign currency savings", accounting for 13.9% of total off-balance sheet items.

## Lending activity

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

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

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

| Sector                        | 31 Dec 2006    |              | 31 Dec 2007    |              | 31 Mar 2008    |              | Growth indices in 2008 | Growth indices for 2007 |
|-------------------------------|----------------|--------------|----------------|--------------|----------------|--------------|------------------------|-------------------------|
|                               | Amount         | Share in %   | Amount         | Share in %   | Amount         | Share in %   |                        |                         |
| ENTERPRISES                   | 322,972        | 59.2         | 437,387        | 57.5         | 478,285        | 57.5         | 109                    | 135                     |
| HOUSEHOLDS                    | 195,873        | 35.9         | 302,543        | 39.8         | 329,179        | 39.6         | 109                    | 155                     |
| Housing construction          | 47,334         | 8.7          | 89,434         | 11.8         | 105,620        | 12.7         | 118                    | 189                     |
| PUBLIC SECTOR                 | 21,644         | 4.0          | 13,928         | 1.8          | 15,953         | 1.9          | 115                    | 64                      |
| SCG                           | 220            | 0.0          | 1              | 0.0          | 1              | 0.0          | 83                     | 0                       |
| Republic of Serbia            | 16,693         | 3.1          | 7,035          | 0.9          | 8,726          | 1.0          | 124                    | 42                      |
| Local government              | 4,731          | 0.9          | 6,892          | 0.9          | 7,226          | 0.9          | 105                    | 146                     |
| OTHER FINANCIAL ORGANIZATIONS | 756            | 0.1          | 1,219          | 0.1          | 1,658          | 0.2          | 136                    | 161                     |
| NON-PROFIT INSTITUTIONS       | 4,236          | 0.8          | 5,828          | 0.8          | 6,631          | 0.8          | 114                    | 138                     |
| <b>TOTAL</b>                  | <b>545,481</b> | <b>100.0</b> | <b>760,905</b> | <b>100.0</b> | <b>831,706</b> | <b>100.0</b> | <b>109</b>             | <b>139</b>              |

In Q1 2008, bank lending rose by RSD 70.8 billion or 9.3%.

In terms of sectoral distribution, lending to enterprises (57.5%) and lending to households (39.6%) were dominant, as the increase in these two categories (by RSD 40.9 billion and RSD 26.6 billion, respectively) accounted for the bulk of growth in Q1 2008.

The share of the first five and the first ten banks in terms of the value of approved loans in total bank lending was 44.9% and 67.8%, respectively. HHI of credit concentration equalled 593.

## 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 |                  |         | 31 Mar 2008 |                  |         | Growth indices in 2008 | Growth indices for 2007 |
|--------------------|-------------|------------------|---------|-------------|------------------|---------|-------------|------------------|---------|------------------------|-------------------------|
|                    | dinars      | foreign currency | total   | dinars      | foreign currency | total   | dinars      | foreign currency | total   |                        |                         |
| Total deposits     | 227,382     | 438,908          | 666,290 | 343,997     | 616,164          | 960,161 | 319,093     | 667,829          | 986,922 | 103                    | 144                     |
| Banks              | 25,102      | 73,122           | 98,224  | 30,216      | 93,438           | 123,654 | 33,454      | 83,835           | 117,289 | 95                     | 126                     |
| Public enterprises | 24,619      | 9,402            | 34,021  | 31,860      | 7,826            | 39,686  | 27,482      | 18,478           | 45,960  | 116                    | 117                     |
| Other enterprises  | 105,344     | 72,489           | 177,833 | 185,090     | 105,610          | 290,700 | 158,237     | 124,012          | 282,249 | 97                     | 163                     |
| Public sector      | 21,103      | 723              | 21,826  | 26,552      | 883              | 27,435  | 31,100      | 835              | 31,935  | 116                    | 126                     |
| SCG                | 226         | 32               | 258     | 21          | 0                | 21      | 93          | 0                | 93      | 448                    | 8                       |
| RS                 | 6,778       | 682              | 7,460   | 15,512      | 846              | 16,358  | 15,684      | 790              | 16,474  | 101                    | 219                     |

| Sector                                     | 31 Dec 2006 |                  |         | 31 Dec 2007 |                  |         | 31 Mar 2008 |                  |         | Growth indices in 2008 | Growth indices for 2007 |
|--|-------------|------------------|---------|-------------|------------------|---------|-------------|------------------|---------|------------------------|-------------------------|
|  | dinars      | foreign currency | total   | dinars      | foreign currency | total   | dinars      | foreign currency | total   |                        |                         |
| Local govt.                                | 14,099      | 9                | 14,108  | 11,019      | 37               | 11,056  | 15,324      | 45               | 15,369  | 139                    | 78                      |
| Other clients                              | 11,507      | 2,362            | 13,869  | 13,248      | 2,503            | 15,751  | 14,788      | 2,841            | 17,629  | 112                    | 114                     |
| Foreign legal entities and natural persons | 2,736       | 19,639           | 22,375  | 6,427       | 24,580           | 31,007  | 3,367       | 27,244           | 30,611  | 99                     | 139                     |
| Households                                 | 33,523      | 260,746          | 294,269 | 46,781      | 381,439          | 428,220 | 47,210      | 410,446          | 457,656 | 107                    | 146                     |
| Other                                      | 3,448       | 425              | 3,873   | 3,823       | -115             | 3,708   | 3,455       | 138              | 3,594   | 97                     | 96                      |

The largest share of deposits referred to household deposits (46.4%), followed by enterprise deposits (33.2%) and bank deposits (11.9%).

Foreign currency deposits made up 67.7% and dinar deposits 32.3% of total deposits. Short-term time deposits (52.1%) were dominant, followed by demand deposits (40.2%).

Total deposits grew by RSD 26.8 billion or 2.8% in Q1 2008. Of total deposits, foreign currency deposits accounted for RSD 51.7 billion (after rising by 8.4%).

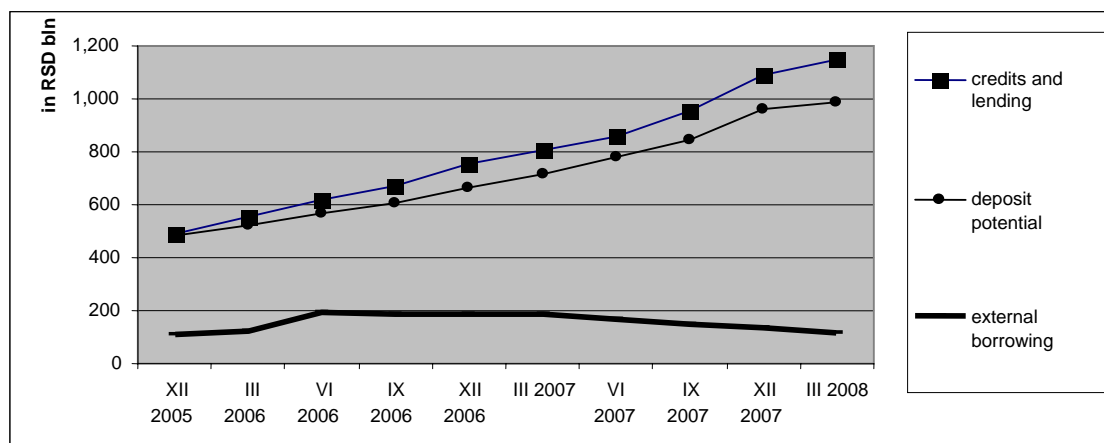
Breakdown by sector shows that household deposits increased most in Q1 2008 – by RSD 29.4 billion or 6.9%.

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 49.9% and 72.1%, respectively. HHI of deposit concentration stood at 709 (50 units higher than in Q4 2007).

### 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 115.3 billion, of which 99.1% referred to foreign owned banks and to borrowing maturing in over one year. During Q1 2008, external credits of banks dropped by RSD 18.4 billion (13.9%), while their share in total balance sheet liabilities of the banking sector declined from 8.6% (31 December 2007) down to 7.1%.



Chart 1 - Credits<sup>3</sup>, deposits and borrowing by banks

## Banking sector risks

### 1. Credit risk

#### 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 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 31 March 2008.

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

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

|                                      |                | A+B            | C + D + E      | TOTAL          |
|--------------------------------------|----------------|----------------|----------------|----------------|
| Total BA and OA                      | 1              |                |                | 3,525,963      |
| Gross risk-weighted assets           | 2              | 1,010,851      | 488,090        | 1,498,941      |
| Share in gross risk-weighted assets  | 3              | 67.4%          | 32.6%          | 100.0%         |
| <b>Reductions (total)</b>            | <b>4=5+6+7</b> | <b>362,388</b> | <b>231,781</b> | <b>594,169</b> |
| collateral*                          | 5              | 331,715        | 138,181        | 469,896        |
| special provisioning against income  | 6              | 9,808          | 83,508         | 93,316         |
| special provisioning against capital | 7              | 20,865         | 10,092         | 30,957         |
| <b>Net risk-weighted assets</b>      | <b>8=2-4</b>   | <b>648,463</b> | <b>256,309</b> | <b>904,772</b> |
| Share in net risk-weighted assets    | 9              | 71.7%          | 28.3%          | 100.0%         |

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

Overall balance sheet assets and off-balance sheet items came to RSD 3,525,963 million as at 31 March 2008, of which RSD 1,498,941 million or 42.5% referred to total gross risk-weighted assets (balance sheet assets and off-balance sheet items). In Q1 2008, the share of total gross risk-weighted assets in categories C, D and E increased from 30.4% at end-Q4 2007 to 32.6%.

If collaterals that serve as security are included, receivables classified in categories C, D and E accounted for RSD 138,181 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 93,600 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 28.3% relative to 24.7% at end-Q4 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:

<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.

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   |

In Q1 2008, collectibility of receivables improved and the level of credits in default declined by 14%.

## 2. Liquidity risk

The table below gives an overview of daily liquidity ratios of banks as at 31 March 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 | 32,624,339            | 41,788,583                   | -9,164,244       | 3,219,500                  | 950,000  |

Of the total number of banks, 19 banks used required reserve assets in the total amount of RSD 10,728 million or 25.7% of total calculated required reserves of such banks. One bank used liquidity loans.

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

## 3. Foreign exchange risk

An analysis of foreign currency positions of the banking sector as at 31 March 2008 shows that total open foreign currency position was RSD 39.5

billion, which is RSD 0.2 billion lower than at the end of Q4 2007. Thus, foreign exchange risk exposure of the banking sector declined from a quarter earlier, and the foreign exchange risk ratio equalled 13.8% (compared to 14.8% in Q4 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 |                                      |
| 24,719               | 7,869 | 2,779                | 494   | 2,167                | 970   | 416                               | 73    | 58                    | -     | 30,139              | 9,406 | 39,545                               |

## Capital adequacy

Regulatory capital of banks increased in Q1 2008 by RSD 19.9 billion or 7.4%. This was mainly due to an increase in core capital (by RSD 24.2 billion or 8.8%), including primarily equity capital (by RSD 11.7 billion) and issue premium (by RSD 14.4 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 Q1 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               | 29.5  |
| From 20 to 30%         | 11              | 34.3  |
| From 30 to 50%         | 14              | 34.0  |
| Over 50%               | 4               | 2.2   |
| Total                  | 34              | 100.0                                       |

The average capital adequacy ratio for the banking system equalled 27.4%.

## Banking sector profitability indicators

The table below gives an overview of profitability indicators:

Table 13 – Movements in banks' profitability

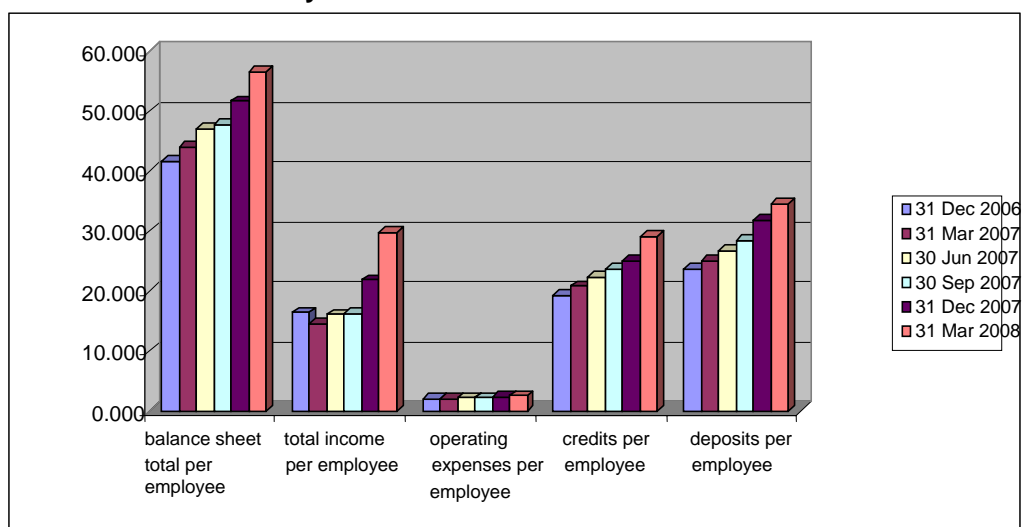
| Banking sector | PROFITABILITY INDICATORS <sup>6</sup> (%) |  |   |  | Financial result<br>(in RSD thousand) |
|----------------|---|--|---|--|---------------------------------------|
|                | Gross income/<br>balance sheet<br>assets  | Net interest<br>income/<br>balance sheet<br>assets | Operating<br>expenses/<br>balance sheet<br>assets | Operating<br>expenses/<br>net income from<br>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                            |
| 31 Mar 2008    | 52.61                                     | 4.91   | 4.62  | 67.23  | 11,023,161                            |

| Banking sector | ROA (%) | ROE (%) | NIM (%) |
|----------------|---------|---------|---------|
| 31 Dec 2006    | 1.70    | 9.67    | 7.46    |
| 31 Dec 2007    | 1.70    | 8.54    | 6.54    |
| 31 Mar 2008    | 2.77    | 12.72   | 6.89    |

### Banking sector productivity indicators

Values of balance sheet assets, deposits and credits per employee as well as total income and operating expenses per employee increased in Q1 2008 on 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 Q1 2008, the banking sector recorded (pre-tax) profit of RSD 11,023 million. A total of 26 banks recorded a positive financial result, while 8 banks recorded operating losses.

The 3.9% depreciation of the dinar against the euro triggered a change in the composition of income and expenses. Income from change in the value of assets and liabilities increased, reaching a share of 13.7% (based on foreign currency clause indexed lending). On the expenses side, growth was recorded for exchange rate losses (share of 65.8%). The net effect of exchange rate gains/losses was negative at RSD 13.7 billion.

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

| Item  | 1 Jan –<br>31 Dec<br>06 | 1 Jan –<br>31 Dec<br>07 | 1 Jan –<br>31 Mar 08 |
|---|-------------------------|-------------------------|----------------------|
| NET INTEREST INCOME   | 48,245                  | 63,404                  | 19,820               |
| Interest income   | 76,937                  | 106,942                 | 35,139               |
| Interest expenses   | 28,692                  | 43,538                  | 15,319               |
| NET PROFIT/LOSS IN RESPECT OF FEES AND COMMISSIONS                              | 22,178                  | 27,451                  | 7,923                |
| Fee and commission income   | 28,372                  | 34,433                  | 9,579                |
| Fee and commission expenses   | 6,194                   | 6,983                   | 1,656                |
| NET PROFIT/LOSS IN RESPECT OF INTEREST, FEES AND COMMISSIONS                    | 70,423                  | 90,854                  | 27,743               |
| NET PROFIT FROM SALE OF SECURITIES  | 981                     | 3,293                   | 666                  |
| Profit in respect of securities   | 1,766                   | 3,295                   | 690                  |
| Losses in respect of securities   | 785                     | 2                       | 24                   |
| NET EXCHANGE RATE GAINS/LOSSES  | 10,543                  | 6,959                   | -13,708              |
| INCOME FROM DIVIDENDS AND STAKES  | 185                     | 1,081                   | 0                    |
| OTHER OPERATING INCOME  | 65,316                  | 53,445                  | 19,114               |
| EXPENSES IN RESPECT OF INDIRECT WRITE-OFFS AND PROVISIONING                     | 61,938                  | 61,149                  | 21,150               |
| OTHER OPERATING EXPENSES  | 64,174                  | 72,712                  | 18,780               |
| NET INCOME/EXPENSES IN RESPECT OF CHANGE IN THE VALUE OF ASSETS AND LIABILITIES | - 4,805                 | 1,702                   | 17,139               |
| Gains from change in the value of assets and liabilities                        | 14,602                  | 64,271                  | 29,093               |
| Losses from change in the value of assets and liabilities                       | 19,407                  | 62,569                  | 11,954               |
| OPERATING PROFIT/LOSS   | 16,530                  | 23,473                  | 11,023               |
| 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>11,023</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 Q1 2008, the National Bank of Serbia neither amended the existing nor enacted any new regulations coming under its regulatory remit (in the field of banking supervision).