



NATIONAL BANK OF SERBIA
BANK SUPERVISION DEPARTMENT
DIVISION FOR FINANCIAL LEASING SUPERVISION

FINANCIAL LEASING SECTOR IN SERBIA

Second Quarter Report 2014

August 2014

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1. Market participants

1.1. Number of lessors

At end-Q2 2014, the list of licensed lessors in the Republic of Serbia included:

- | | |
|---|---|
| 1. CA Leasing Srbija d.o.o. Beograd | 9. Porsche Leasing SCG d.o.o. Beograd |
| 2. ERB Leasing a.d. Beograd | 10. Procredit Leasing d.o.o. Beograd |
| 3. Hypo Alpe-Adria-Leasing d.o.o. Beograd | 11. Raiffeisen Leasing d.o.o. Beograd |
| 4. Intesa Leasing d.o.o. Beograd | 12. S-Leasing d.o.o. Beograd |
| 5. LIPAKS d.o.o. Beograd | 13. Sogelease Srbija d.o.o. Beograd |
| 6. NBG Lizing d.o.o. Beograd | 14. UniCredit Leasing Srbija d.o.o. Beograd |
| 7. NLB Leasing d.o.o. Beograd | 15. VB Leasing d.o.o. Beograd |
| 8. Piraeus Leasing d.o.o. Beograd | 16. Zastava Istrabenz Lizing d.o.o. Beograd |

1.2. Number of employees

After rising steadily from year to year, in 2009 total employment in the financial leasing sector recorded a decline. The downward trend continued throughout 2010. During 2011, the number of employees in the financial leasing sector ranged from 471 to 485 and ended the year at 482. The number of employees began to decline again in 2012 and reached 426 at year-end, while in 2013 it went up to 435. On 30 June 2014, the financial leasing sector employed the same number of people as at end-2013.

The average number of employees per lessor was around 27 at the end of Q2.

Table 1 – Number of employees in the financial leasing sector

Date	Number of employees
31/12/2008	516
31/12/2009	489
31/12/2010	476
31/12/2011	482
31/12/2012	426
31/12/2013	435
30/6/2014	435

Source: National Bank of Serbia.

1.3. Ownership structure

Domestic vs. foreign ownership

- Nine lessors were in 100% or majority ownership of foreign legal entities;
- Six lessors were in 100% or majority ownership of domestic entities (of which five were owned by domestic banks with foreign capital);
- One lessor was jointly owned by a domestic bank with foreign capital share and a foreign legal entity, each holding a 50% capital stake in the lessor.

Financial vs. non-financial sector

- Fourteen lessors were founded by banks, banking group members or other financial institutions; Porsche Bank AG, Salzburg, Austria – the founder of Porsche Leasing SCG d.o.o. Belgrade – is specialised in financing Porsche Group products;
- Two lessors (LIPAKS d.o.o. Belgrade and Zastava Istrabenz Lizing d.o.o. Beograd) were founded by non-financial sector entities.

Table 2 – Lessor ownership structure

No.	Lessor	Ownership	% of ownership
1.	CA Leasing Srbija d.o.o. Beograd	Credit Agricole Banka Srbija a.d. Novi Sad	100
2.	ERB Leasing a.d. Beograd	EFG New Europe Holding b.v, Amsterdam, Netherlands	48.63
		EFG Eurobank Ergasias s.a, Athens, Greece	25.81
		Eurobank a.d. Beograd	25.56
3.	Hypo Alpe-Adria-Leasing d.o.o. Beograd	HETA Asset Resolution GmbH, Klagenfurt, Austria	100
4.	Intesa Leasing d.o.o. Beograd	Banca Intesa a.d. Beograd	100
5.	LIPAKS d.o.o. Beograd	Mirko Žeželj	48.19
		Zoran Tanasić	48.19
		Sandra Džodić	3.11
		Milorad Milić	0.51
6.	NBG Lizing d.o.o. Beograd	National bank of Greece s.a. Athens, Greece	100
7.	NLB Leasing d.o.o. Beograd	Nova Ljubljanska banka d.d, Ljubljana, Slovenia	100
8.	Piraeus Leasing d.o.o. Beograd	Piraeus Bank s.a. Athens, Greece	51.00
		Piraeus Bank a.d. Beograd	49.00
9.	Porsche Leasing SCG d.o.o. Beograd	Porsche Bank AG, Salzburg, Austria	100
10.	Procredit Leasing d.o.o. Beograd	ProCredit Bank a.d. Beograd	100

Table 2 – Lessor ownership structure

No.	Lessor	Ownership	% of ownership
11.	Raiffeisen Leasing d.o.o. Beograd	Raiffeisen banka a.d. Beograd	50
		Raiffeisenbank – Leasing International GmbH, Vienna, Austria	50
12.	S-Leasing d.o.o. Beograd	Steiermarkische Bank und Sparkassen Aktiengesellschaft, Graz, Austria	25
		Erste Bank a.d. Novi Sad	75
13.	Sogelease Srbija d.o.o. Beograd	Societe Generale Banka Srbija a.d. Beograd	100
14.	UniCredit Leasing Srbija d.o.o. Beograd	UniCredit Leasing S.P.A, Bologna, Italy	100
15.	VB Leasing d.o.o. Beograd	VB-Leasing International Holding GmbH, Vienna, Austria	100
16.	Zastava Istrabenz Lizing d.o.o. Beograd	Istrabenz D.D. Koper, Slovenia	95.2
		AD for holding, consulting and management, Zastava vozila group, Kragujevac – undergoing restructuring	4.8

Source: National Bank of Serbia.

2. Balance sheet structure

2.1. Balance sheet

On 30 June 2014, balance sheet assets of the leasing sector totalled RSD 64.5 bln, down by 4.4% relative to 31 December 2013 (RSD 67.5 bln). The bulk of assets was foreign currency clause indexed (88.8%), while most liabilities were foreign currency denominated (79.8%).

The largest share of total assets was that of financial lease receivables, which increased from 79.9% at end-2013 to 85.2% at end-Q2 2014. The nominal amount of these receivables rose by 2.0%.

Relative to 2013, current assets decreased by 31.3%, reflecting chiefly a fall in cash and cash equivalents (54.2%) and short-term financial assets (31.9%). The share of cash and cash equivalents in total balance sheet assets decreased from 5.3% at end-2013 to 2.6% at end-Q2 2014, while the share of short-term financial assets in total balance sheet assets plunged from 9.2% to 6.5%. The share of other current assets and deferred tax assets declined marginally – from 2.8% to 2.6%.

At end-Q2 2014, the capital of all lessors amounted to RSD 6.4 bln, up by 6.2% on end-2013 (RSD 6.0 bln). This increase was mainly due to the increase in share capital. The share of capital in total balance sheet liabilities expanded from 8.9% in 2013 to 9.8% on 30 June 2014.

As at 30 June 2014, long-term liabilities accounted for the largest share of total liabilities – 84.1%, down by 3.0% from 2013. The share of long-term foreign credits went up from 79.2% in 2013 to 79.4%, while the share of long-term domestic credits rose from 3.7% to 4.7%.

The share of short-term in total liabilities decreased from 7.4% in 2013 to 5.3% on 30 June 2014. Short-term domestic credits accounted for 3.1% of total liabilities (5.6% in 2013), while other liabilities and deferred tax liabilities made up 1.4% (as in 2013) and financial lease obligations 0.7% of total liabilities (0.3% in 2013).

Table 3 – Aggregate balance sheet of all lessors

(in 000 RSD)

		31 Dec 2013		30 June 2014		% growth
No	ITEM	amount	%	amount	%	30/6/14/ 31/12/13
ASSETS		67,462,430	100.0	64,496,260	100,0	-4.4
1	FIXED ASSETS	54,584,448	80,9	55,650,588	86.2	2.0
1.1	Property, plant and equipment	451,746	0,7	475,157	0.7	5.2
1.2	Financial lease receivables	53,894,829	79,9	54,982,328	85.2	2.0
1.3	Long-term financial assets	100,753	0,1	72,727	0.1	-27.8
1.4	Other fixed assets	137,120	0,2	120,376	0.2	-12.2
2	CURRENT ASSETS	12,877,982	19,1	8,845,672	13.8	-31.3
2.1	Cash and cash equivalents	3,599,928	5,3	1,649,767	2.6	-54.2
2.2	Short-term financial lease receivables	687,299	1,0	771,914	1.2	12.3
2.3	Short-term financial assets	6,175,668	9,2	4,203,739	6.5	-31.9
2.4	Other short-term receivables	515,468	0,8	568,262	0.9	10.2
2.5	Other current assets and deferred tax assets	1,899,619	2,8	1,651,990	2.6	-13.0
LIABILITIES		67,462,430	100,0	64,496,260	100,0	-4.4
1	CAPITAL	5,983,508	8,9	6,353,430	9.8	6.2
1.1	Share capital	5,091,377	7,5	5,665,895	8.8	11.3
1.2	Reserves	1,541,024	2,4	1,541,024	2.4	0.0
1.3	Revaluation reserves	0	0,0	0	0.0	-
1.4	Net unrealised gains/losses	2789	0,0	3102	0.0	11.2
1.5	Retained earnings	2,898,548	4,3	2,922,965	4.5	0.8
1.6	Loss	3,550,230	5,3	3,779,556	5.9	6.5
1.7	Purchased own shares and stakes	0	0,0	0	0.0	-

Table 3 – Aggregate balance sheet of all lessors

(in 000 RSD)

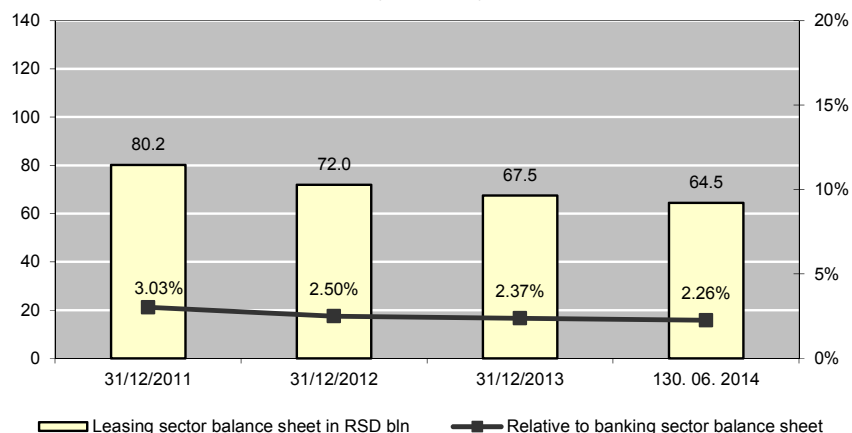
No	ITEM	31 Dec 2013		30 June 2014		% growth
		amount	%	amount	%	30/6/14/ 31/12/13
2	LONG-TERM PROVISIONING AND LIABILITIES	56,497,447	83,7	54,788,292	84.9	-3.0
2.1	Long-term provisions	525,218	0,8	515,961	0.8	-1.8
2.2	Long-term liabilities	55,972,229	82,9	54,272,331	84.1	-3.0
2.2.1	Long-term domestic credit	2,523,665	3,7	3,044,526	4.7	20.6
2.2.2	Long-term foreign credit	53,437,100	79,2	51,216,226	79.4	-4.2
2.2.3	Other long-term liabilities	11,464	0,0	11,579	0.0	1.0
3	SHORT-TERM LIABILITIES	4,981,475	7,4	3,354,538	5.3	-32.7
3.1	Short-term financial liabilities	3,814,070	5,7	2,032,904	3.2	-46.7
3.1.1	Short-term domestic credit	3,761,084	5,6	1,981,099	3.1	-47.3
3.1.2	Short-term foreign credit	0	0,0	0	0.0	-
3.1.3	Liabilities under interest and other costs of financing	52,986	0,1	51,805	0.1	-2.2
3.2	Financial lease liabilities	216,204	0,3	442,850	0.7	104.8
3.3	Other liabilities and deferred tax liabilities	951,201	1,4	878,784	1.4	-7.6

Source: National Bank of Serbia.

2.2. Balance sheet total of lessors and banks

As at 30 June 2014, the ratio of balance sheet total of the leasing sector (RSD 64.5 bln) to banking sector balance sheet total equalled 2.26%, as illustrated in Chart 1.

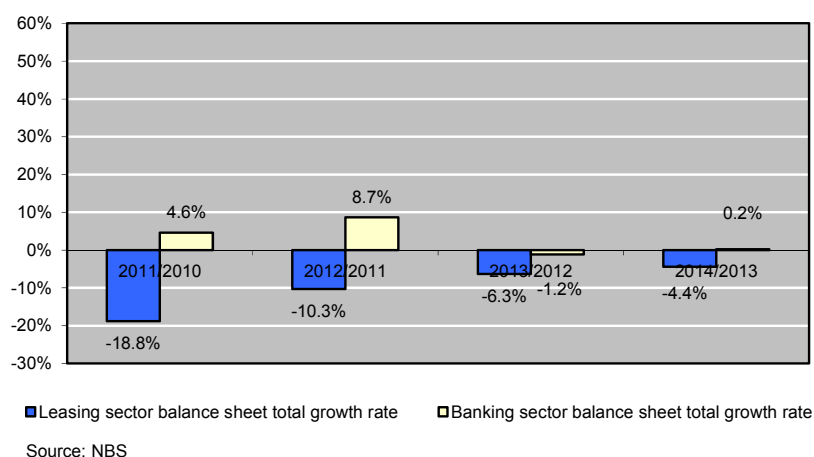
Chart 1 – Balance sheet total of lessors and banks
(in RSD bln)



Source: NBS

From 31 December 2013 to 30 June 2014, leasing sector balance sheet total shrank by 4.4%, while banking sector balance sheet total increased by 0.2% (Chart 2).

Chart 2 – Growth rates of the balance sheet total of lessors and banks



2.3. Market share

In order to analyse the structure of the financial leasing market and the degree of competition among different lessors, calculations were made of individual and cumulative market shares of lessors' balance sheet totals, as well as of the Herfindahl-Hirschman index (HHI). Also, lessors were ranked based on the size of individual market share as determined by the level of receivables from financial leasing (portfolio).

Table 4 – Market share of lessors

Rank	Lessor	Balance sheet assets (in 000 RSD)	Share 2013	Cumul. share 2013	Rank	Lessor	Balance sheet assets (in 000 RSD)	Share 2014	Cumul. share 2014	Rank – port-folio 2014
1.	Hypo Alpe-Adria-Leasing d.o.o. Beograd	10,011,101	14.8%	14.8%	1.	Hypo Alpe-Adria-Leasing d.o.o. Beograd	9,563,079	14.8%	14.8%	1
2.	Intesa Leasing d.o.o. Beograd	9,072,348	13.5%	28.3%	2.	Intesa Leasing d.o.o. Beograd	7,987,740	12.4%	27.2%	4
3.	UniCredit Leasing Srbija d.o.o. Beograd	7,775,523	11.5%	39.8%	3.	UniCredit Leasing Srbija d.o.o. Beograd	6,714,586	10.4%	37.6%	2
4.	VB Leasing d.o.o. Beograd	5,498,867	8.2%	48.0%	4.	VB Leasing d.o.o. Beograd	5,674,080	8.8%	46.4%	3

Table 4 – Market share of lessors

Rank	Lessor	Balance sheet assets (in 000 RSD)	Share 2013	Cumul. share 2013	Rank	Lessor	Balance sheet assets (in 000 RSD)	Share 2014	Cumul. share 2014	Rank – port-folio 2014
5.	Sogelease Srbija d.o.o. Beograd	5,030,954	7.5%	55.4%	5.	Sogelease Srbija d.o.o. Beograd	4,798,750	7.5%	53.9%	5
6.	NBG Lizing d.o.o. Beograd	4,813,867	7.2%	62.6%	6.	NBG Lizing d.o.o. Beograd	4,546,732	7.0%	60.9%	7
7.	Raiffeisen Leasing d.o.o. Beograd	4,143,510	6.1%	68.7%	7.	Raiffeisen Leasing d.o.o. Beograd	4,538,907	7.0%	67.9%	6
8.	NLB Leasing d.o.o. Beograd	4,095,966	6.1%	74.8%	8.	CA Leasing Srbija d.o.o. Beograd	3,793,013	5.9%	73.8%	8
9.	CA Leasing Srbija d.o.o. Beograd	3,767,570	5.6%	80.4%	9.	S-Leasing d.o.o. Beograd	3,363,669	5.2%	79.0%	9
10.	S-Leasing d.o.o. Beograd	3,117,125	4.6%	85.0%	10.	NLB Leasing d.o.o. Beograd	2,933,723	4.5%	83.5%	10
11.	LIPAKS d.o.o. Beograd	2,201,614	3.2%	88.2%	11.	Porsche Leasing SCG d.o.o. Beograd	2,291,339	3.6%	87.1%	11
12.	ERB Leasing a.d. Beograd	2,148,177	3.2%	91.4%	12.	Piraeus Leasing d.o.o. Beograd	2,028,466	3.2%	90.3%	12
13.	Porsche Leasing SCG d.o.o. Beograd	2,014,730	3.0%	94.4%	13.	LIPAKS d.o.o. Beograd	1,993,627	3.1%	93.4%	15
14.	Procredit Leasing d.o.o. Beograd	1,703,687	2.5%	96.9%	14.	ERB Leasing a.d. Beograd	1,919,847	3.0%	96.4%	14
15.	Piraeus Leasing d.o.o. Beograd	1,526,427	2.3%	99.2%	15.	Procredit Leasing d.o.o. Beograd	1,819,876	2.8%	99.2%	13
16.	Zastava Istrabenz Lizing d.o.o. Beograd	540,964	0.8%	100.0%	16.	Zastava Istrabenz Lizing d.o.o. Beograd	528,826	0.8%	100.0%	16
TOTAL		67,462,430	100.0%	-	TOTAL		64,496,260	100.0%	-	
Herfindahl–Hirschman Index		875.8			Herfindahl–Hirschman Index		845.6			

Source: National Bank of Serbia.

The HHI of 845.6 on 30 June 2014 points to competitiveness of the Serbian financial leasing market.

As illustrated in Table 4, the ranking of lessors by market share did not change much at end-Q2 2014 relative to end-2013. The first seven lessors retained their positions, even though their market share slid from 68.7% to 67.9%.

Relative to 2013, the most significant changes in ranking and market share based on the size of balance sheet assets were recorded for the following lessors:

- NLB Leasing d.o.o. Beograd, which moved from the 8th to the 10th position, its market share decreasing from 6.1% to 4.5%;
- LIPAKS d.o.o. Beograd, which moved from the 11th to the 13th position, its market share decreasing from 3.2% to 3.1%;

- ERB Leasing a.d. Beograd, which moved from the 12th to the 14th position, its market share decreasing from 3.2% to 3.0%;
- Porsche Leasing SCG d.o.o. Beograd, which moved from the 13th position to the 11th position, its market share increasing from 3.0% to 3.6%, and
- Piraeus Leasing d.o.o. Beograd, which moved from the 15th to the 12th position, its market share increasing from 2.3% to 3.2%.

The greatest difference in ranking based on balance sheet assets and the level of financial lease receivables (portfolio) was recorded for Intesa Leasing d.o.o. Beograd – at the 4th position by the portfolio level and at the 2nd position by the balance sheet assets, as well as for LIPAKS d.o.o, which ranked 15th by the level of portfolio and 13th by the level of balance sheet assets, and Procredit Leasing d.o.o. Beograd, which ranked 13th by the level of portfolio and 15th by the level of balance sheet assets.

2.4. Profit and loss account

In the first two quarters of 2014, total profit before tax of all financial lessors was negative at RSD 126.8 mln (in 2013 it was also negative – RSD 2.3 bln). Eleven lessors posted positive profit before tax in the amount of RSD 316.9 mln, while five lessors had a negative result before tax in the amount of RSD 443.7 mln. In the period under review, relative to 2013, total income and gains dropped by 14.9% and total expenses and losses by 38.1%.

Interest income from financial leasing accounted for the major part of total income, its share up from 74.6% in 2013 to 76.4% end-Q2 2014. Income from financial leasing operations (conclusion and implementation of financial lease contracts – processing of financing applications, over-invoiced costs, other costs arising from the non-settlement of lessor obligations) accounted for 16.2% of total income, while net income from other interest accounted for 3.7%, and other income and gains for 3.6%.

Interest expenses accounted for the largest share of total expenses (32.2%) and total income (34.1%). The next were salaries, salary compensations and other personal expenses whose share in total income increased from 21.8% in 2013 to 26.1% at end-Q2. They were followed by other operating expenses which held a 21.4% share in total income. Expenses arising from financial leasing operations accounted for 5.8% and expenses of depreciation and provisioning for 3.0% of total income.

Table 5 – Aggregate profit and loss account of all lessors

(in 000 RSD)

No	ITEM	01/01- 31/12/13	% of total income	01/01- 30/6/14	% of total income	% growth 2014/ 2013
INCOME AND EXPENSES FROM REGULAR OPERATIONS						
OPERATING INCOME AND EXPENSES						
1	Interest income from leasing	3,792,423	74.6	1,653,482	76.4	-12.8
2	Interest expenses from leasing	1,696,768	33.4	738,646	34.1	-12.9
3	Income from leasing	750,570	14.8	350,373	16.2	-6.6
4	Expenses from leasing	290,168	5.7	126,502	5.8	-12.8
I	BUSINESS RESULT	2,556,057	50.3	1,138,707	52.6	-10.9
OTHER INCOME AND EXPENSES						
5	Net income from other interest	310,191	6.1	79,647	3.7	-48.6
6	Net expenses from other interest	0	0.0	0	0.0	-
7	Net income from exchange rate differentials and currency clause effects	0	0.0	0	0.0	-
8	Net expenses from exchange rate differentials and currency clause effects	72,586	1.4	15,698	0.7	-56.7
9	Net income from share in income of subsidiary legal entities and joint ventures	3,029	0.1	283	0.0	-81.3
10	Net expenses from share in losses of subsidiary legal entities and joint ventures	0	0.0	0	0.0	-
11	Net gains from sale and lease	0	0.0	0	0.0	-
12	Net loss from sale and lease	87,322	1.7	23,455	1.1	-46.3
13	Salaries, salary compensations and other personal expenses	1,110,839	21.8	565,628	26.1	1.8
14	Depreciation and provisioning	610,021	12.0	63,960	3.0	-79.0
15	Other operating expenses	1,053,884	20.7	462,244	21.4	-12.3
16	Net gains from sale of intangible investment, property, plant, equipment and other assets	15,989	0.3	3,050	0.1	-61.8
17	Net loss from sale of intangible investment, property, plant, equipment and other assets	0	0.0	0	0.0	-
18	Net gains from sale of share in capital and securities	0	0.0	0	0.0	-
19	Net loss from sale of share in capital and securities	0	0.0	0	0.0	-
20	Net income from asset valuation adjustment	0	0.0	0	0.0	-
21	Net expenses from asset valuation adjustment	1,907,815	37.5	228,219	10.5	-76.1
22	Other gains and income	211,890	4.2	77,108	3.6	-27.2
23	Other losses and expenses	571,848	11.2	66,352	3.1	-76.8
II	REGULAR OPERATING RESULT	-2,317,159	-45.6	-126,761	-5.9	-89.1
24	NET GAIN FROM DISCONTINUED OPERATIONS	0	0.0	0	0.0	-
25	NET LOSS FROM DISCONTINUED OPERATIONS	19	0.0	0	0.0	-100.0
III	PRE-TAX RESULT	-2,317,178	-45.6	-126,761	-5.9	-89.1
26	PROFIT TAX					
26.1	1. Tax expense of the period	95,445	1.9	45,182	2.1	-5.3
26.2	2. Deferred tax expenses of the period	10,720	0.2	2,411	0.1	-55.0
26.3	3. Deferred tax income of the period	6,188	0.1	0	0.0	-100.0
27	Paid personal income to employer	0	0.0	0	0.0	-
IV	NET RESULT	-2,417,155	-47.5	-174,354	-8.1	-85.6
V	TOTAL INCOME AND GAINS	5,084,092	100.0	2,163,943	100.0	-14.9
VI	TOTAL EXPENSES AND LOSSES	7,401,270	145.6	2,290,704	105.9	-38.1

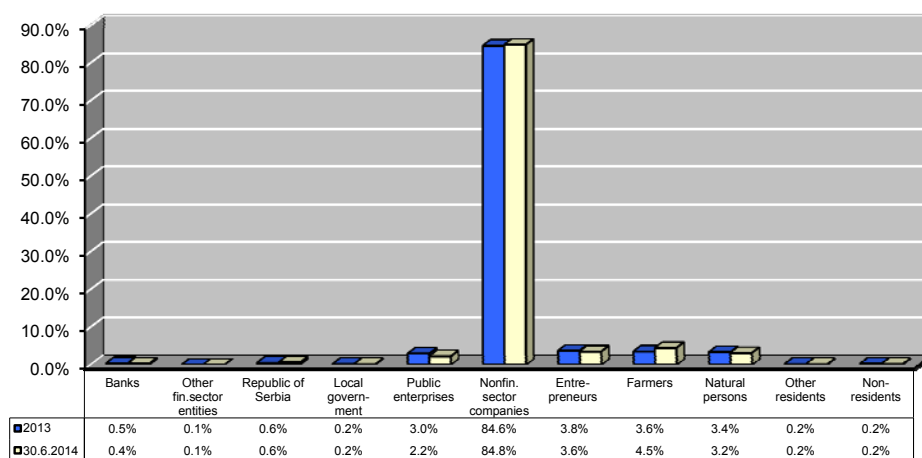
Source: National Bank of Serbia.

3. Structure of investments and asset quality

3.1. Lessees

At end-Q2 2014, like at end-2013, most financial lease arrangements (Chart 3) were approved to non-financial sector companies (84.8%).

Chart 3 - Investment structure by lessee



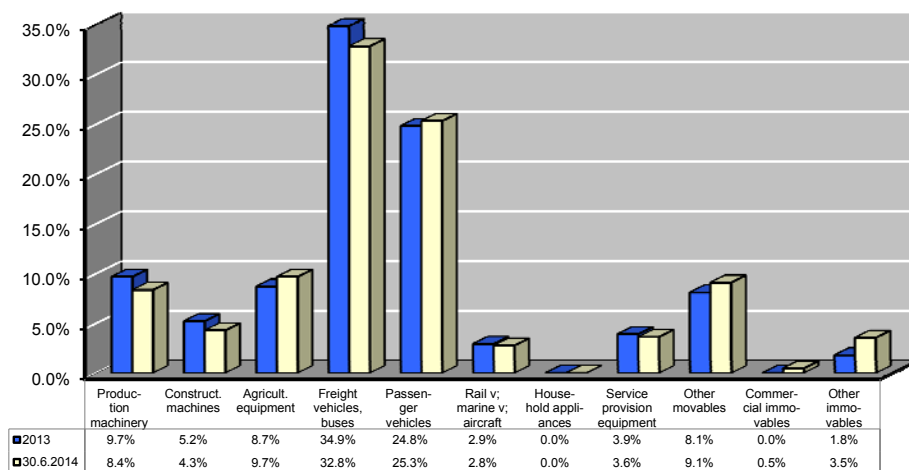
Source: NBS

The share of other lessees was significantly smaller. The share of farmers was 4.5%, entrepreneurs – 3.6%, natural persons – 3.2% and public enterprises – 2.2%.

3.2. Lease asset

The structure of lease investments by the lease asset at end-Q2 2014 changed slightly from the end of 2013 (Chart 4). Though declining from 34.9% in 2013 to 32.8%, the financing of freight vehicles, minibuses and buses continued to account for the largest share of lease investments. Next in size was the financing of passenger vehicles – 25.3% compared to 24.8% in 2013.

Chart 4 - Investment structure by lease object



Source: NBS

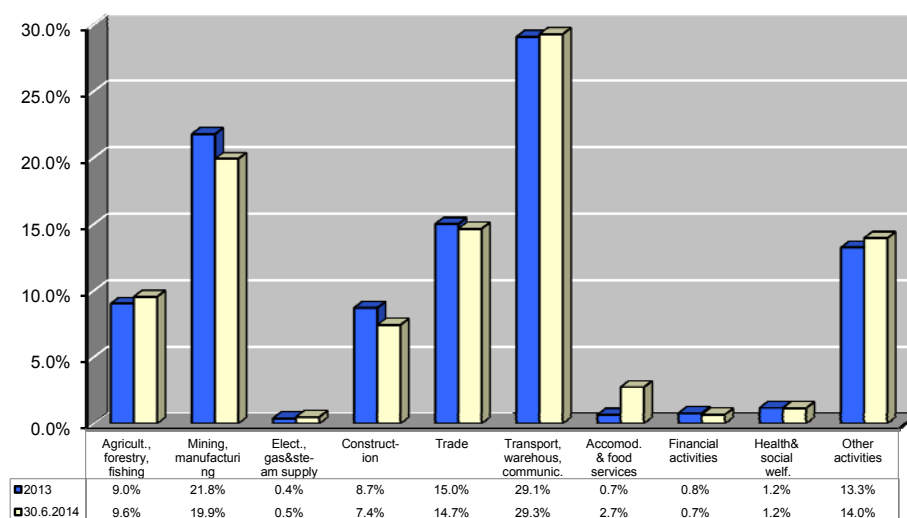
The financing of production machinery and equipment decreased from 9.7% in 2013 to 8.4% at end-Q2 2014 and the financing of construction machinery and equipment fell from 5.2% to 4.3%. At the same time, the financing of agricultural machinery and equipment upped from 8.7% to 9.7% and the financing of other movables from 8.1% to 9.1%.

3.3. Investment structure by sector

As at 30 June 2014 the most significant share in total financial lease investments (Chart 5) was that of transport, warehousing, information and communications – 29.3% (29.1% in 2013) and that of manufacturing together with mining and water supply – 19.9% (21.8% in 2013).

A significant share was also noted for trade – 14.7% (15.0% in 2013), other activities – 14.0% (13.3% in 2013), agriculture, forestry and fishing – 9.6% (9.0% in 2013) and construction – 7.4% (8.7% in 2013).

Chart 5 - Investment structure by sector



Source: NBS

3.4. Asset quality

On 30 June 2014, the value of financial lessors' portfolio was RSD 55.0 bln, which represents a 2.0% increase relative to end-2013 (RSD 53.9 bln).

Past due gross receivables reached RSD 9.7 bln, making up 15.4% of gross receivables in respect of financial leasing (15.7% in 2013), while the net book value of past due receivables was RSD 2.7 bln – its share in portfolio was 5.0% (4.9% in 2013), and in capital 43.1% (44.4% in 2013).

At end-Q2 2014, financial leasing receivables past due for more than 90 days accounted for 13.0% of total receivables (13.4% in 2013), while the net book value of these receivables accounted for 3.1% (as in 2013) of the total portfolio.

The share of value adjustment of due and undue receivables came at RSD 7.9 bln on 30 June 2014, while its share in total gross receivables was 12.6%, which is a slight decrease relative to end-2013 when it equalled 13.2%.

In Q2 2014, the value of returned lease assets was RSD 755.8 mln which, together with outstanding balances from previous years, came to approximately RSD 2.2 bln or 3.9% of the portfolio and 34.0% of capital (7.6% and 68.5% at end-2013). Of the returned lease assets, lessors re-leased 15.1%, sold 35.6%, rented 1.0%, while 39.6% remained unemployed. The value of returned lease assets was reduced through valuation adjustment by 8.6%. As at 30 June 2014, the stock of returned lease assets came at RSD 865.5 mln or 1.6% of the portfolio and 13.5% of capital (at end-2013, the stock of returned lease assets equalled 2.2% of the portfolio and 19.6% of capital).

4. Performance indicators

End-Q2 2014 performance indicators of financial leasing providers (ROA and ROE) were negative owing to the negative pre-tax result.

Table 6 – Performance indicators

PERFORMANCE INDICATOR	31 Dec 2013	30 June 2014
Return on assets (ROA)	-3.32%	-0.38%
Return on equity (ROE)	-33.80%	-4.11%
Net interest margin	4.26%	3.65%
Average lending rate	7.43%	6.58%
Average deposit rate	2.92%	2.75%
Coverage of interest expenses	-0.29x	0.84x
Operating expenses to average investment	4.91%	4.01%
Total debt to equity	10.27x	9.15x
Long-term debt to equity	9.44x	8.62x

Source: National Bank of Serbia.

As the average lending interest rate decreased more than the average deposit rate, net interest margin narrowed down.

The coverage of interest expenses went up, while the operating expenses relative to average investment went down.

As capital increased and debt decreased, solvency in the financial leasing market improved. This is supported by the fact that total debt and long-term debt were 9.15 and 8.62 times higher than capital, respectively.

5. Sources of financing

The balance sheet structure indicates that the largest portion of financial lease investment was financed from foreign borrowing – as at 30 June 2014, long-term foreign credit liabilities made up 79.4% of total liabilities, while financial lease investment accounted for 85.2% of total assets. In the majority of cases, foreign creditors of leasing providers were either their founders or legal entities operating within the same banking group. The share of long-term domestic credits increased from 3.7% of total liabilities in 2013 to 4.7% at end-Q2 2014, while the share of short-term domestic credits decreased from 5.6% to 3.1%.