



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

FINANCIAL LEASING SUPERVISION IN SERBIA

Fourth Quarter Report 2012

April 2013

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1. Market participants

1.1. Number of lessors

At end-2012, the list of licensed lessors 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 |

Upon the approval of the Business Register Agency given on 13 December 2012, EFG Leasing a.d. Beograd changed its business name into ERB Leasing a.d. Beograd.

OTP Leasing d.o.o. Novi Sad, which was undergoing voluntary liquidation approved by the NBS, was deleted from the Business Register Agency on 19 December 2012.

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 end-2012. The average number of employees per lessor was around 27.

Table 1 – Number of employees in the financial leasing sector

Date	No. of employees
31/12/2005	329
31/12/2006	388
31/12/2007	478
31/12/2008	516
31/12/2009	489
31/12/2010	476
31/12/2011	482
31/12/2012	426

Source: National Bank of Serbia.

1.3. Ownership structure

Domestic vs. foreign ownership

- Ten lessors were in 100% or majority ownership of foreign legal entities;
- Five lessors were in 100% or majority ownership of domestic entities (of which four 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

- Thirteen lessors were founded by banks, banking group members or other financial institutions;
- Two lessors (LIPAKS d.o.o. Belgrade and Zastava Istrabenz Lizing d.o.o. Beograd) were founded by non-financial sector entities. Porsche Leasing SCG d.o.o. Belgrade also belongs to this group, as it was founded by a Porsche Group member – a bank specialised in financing Porsche Group products.

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, Holland EFG Eurobank Ergasias s.a, Athens, Greece Eurobank EFG a.d. Beograd	48.63 25.81 25.56
3.	Hypo Alpe-Adria-Leasing d.o.o. Beograd	Hypo-Alpe-Adria-Leasing Holding GmbH, Klagenfurt, Austria (as per the Decision of the Business Register Agency dated 1 February 2013, the business name was changed into HETA Asset Resolution GmbH, Klagenfurt)	100
4.	Intesa Leasing d.o.o. Beograd	Banca Intesa a.d. Beograd	100
5.	LIPAKS d.o.o. Beograd	Mirko Žeželj Zoran Tanasić Sandra Džodić Milorad Milić	48.19 48.19 3.11 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 Piraeus Bank a.d. Beograd	51.00 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
11.	Raiffeisen Leasing d.o.o. Beograd	Raiffeisen banka a.d. Beograd Raiffeisenbank – Leasing International GmbH, Vienna, Austria	50 50
12.	S-Leasing d.o.o. Beograd	Steiermarkische Bank und Sparkassen Aktiengesellschaft, Graz, Austria Erste Group Immorent International Holding GmbH, Vienna, Austria	50 50
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 AD for holding, consulting and management, Zastava vozila group, Kragujevac – undergoing restructuring	95.2 4.8

Source: National Bank of Serbia.

2. Balance sheet structure

2.1. Balance sheet

On 31 December 2012, balance sheet assets of the leasing sector totalled RSD 72.0 bln, down by 10.3% relative to 31 December 2011 (RSD 80.2 bln). The bulk of assets and liabilities was either foreign currency denominated or foreign currency clause indexed (85.4% of total assets and 82.5% of total liabilities).

The largest share of total assets was that of financial lease receivables, which rose from 78.9% at end-2011 to 82.2% at end-2012.

Relative to 2011, current assets fell by 25.2%, reflecting chiefly a 64.0% decline in cash and cash equivalents. The share of this position in total balance sheet assets fell from 8.7% at end-2011 to 3.5% at end-2012, mostly as the consequence of abolishing lessors' obligation to keep at their earmarked bank accounts reserve balance calculated for obligations under loans, other borrowings and supplementary payments received from abroad..

Unable to invest in financial leasing, some lessors termed their excess financial assets with banks, which spurred an increase in the share of long- and short-term financial assets in total balance sheet assets. Due to the decrease of total balance sheet assets, the share of these items in it increased from 6.9% (end-2011) to 7.6% (end-2012), although the nominal value of the items declined minimally. In the same period, the share of 'other current assets and deferred tax assets' rose from 3.5% (2011) to 4.2% (2012).

As at 31 December 2012, long-term obligations accounted for the largest share of total liabilities – 85.6%, down by 11.6% from 2011. The share of long-term foreign credits went up from 81.2% in 2011 to 82.3%, while the share of long-term domestic credits fell from 5.7% in 2011 to 3.3%.

The share of short-term obligations in total liabilities increased from 3.0% in 2011 to 3.5% on 31 December 2012, of which 1.5% referred to other obligations and deferred tax obligations (1.4% in 2011). Short-term domestic credits accounted for 1.7% of total liabilities (1.2% in 2011), while financial lease obligations made up 0.3% (as in 2011).

Capital decreased by 3.8% during 2012, from RSD 8.0 bln (end-2011) to 7.7 bln (end-2012), but its share in total liabilities rose from 10.0% (in 2011) to 10.8% at end-2012. This was due to a decline in reserves and a higher loss.

Table 3 – Aggregate balance sheet of all lessors
(in 000 RSD)

		31/12/2011		31/12/2012		% growth
No.	ITEM	amount	%	amount	%	31/12/12/ 31/12/11
ASSETS		80,213,477	100.0	71,987,827	100.0	-10.3
1.	FIXED ASSETS	63,965,232	79.7	59,829,256	83.1	-6.5
1.1.	Property, plant and equipment	511,916	0.6	486,120	0.7	-5.0
1.2.	Financial lease receivables	63,300,147	78.9	59,172,175	82.2	-6.5
1.3.	Long-term financial assets	3,024	0.0	3,229	0.0	6.8
1.4.	Other fixed assets	150,145	0.2	167,732	0.2	11.7
2.	CURRENT ASSETS	16,248,245	20.3	12,158,571	16.9	-25.2
2.1.	Cash and cash equivalents	7,002,921	8.7	2,519,814	3.5	-64.0
2.2.	Short-term financial lease receivables	581,677	0.7	808,141	1.1	38.9
2.3.	Short-term financial assets	5,511,018	6.9	5,506,733	7.6	-0.1
2.4.	Other short-term receivables	368,216	0.5	360,500	0.5	-2.1
2.5.	Other current assets and deferred tax assets	2,784,413	3.5	2,963,383	4.2	6.4
LIABILITIES		80,213,477	100.0	71,987,827	100.0	-10.3
1.	CAPITAL	8,032,937	10.0	7,727,926	10.8	-3.8
1.1.	Share capital	4,184,951	5.2	4,371,035	6.1	4.4
1.2.	Reserves	2,520,304	3.1	2,221,657	3.1	-11.8
1.3.	Revaluation reserves	0	0.0	0	0.0	-
1.4.	Net unrealised gains/losses	0	0.0	-249	0.0	-
1.5.	Retained earnings	3,157,978	3.9	3,115,470	4.4	-1.3
1.6.	Loss	1,830,296	2.3	1,979,987	2.8	8.2
1.7.	Purchased own shares and stakes	0	0.0	0	0.0	-
2.	LONG-TERM PROVISIONING AND LIABILITIES	69,790,592	87.0	61,710,313	85.7	-11.6
2.1.	Long-term provisions	72,360	0.1	62,339	0.1	-13.8
2.2.	Long-term liabilities	69,718,232	86.9	61,547,974	85.6	-11.6
2.2.1.	Long-term domestic credit	4,563,153	5.7	2,378,374	3.3	-47.9
2.2.2.	Long-term foreign credit	65,155,079	81.2	59,258,228	82.3	-9.1
2.2.3.	Other long-term liabilities	0	0.0	11,372	0.0	-
3.	SHORT-TERM LIABILITIES	2,389,948	3.0	2,549,588	3.5	6.7
3.1.	Short-term financial liabilities	990,098	1.3	1,248,814	1.7	26.1
3.1.1.	Short-term domestic credit	932,259	1.2	1,214,401	1.7	30.3

Table 3 – Aggregate balance sheet of all lessors
(in 000 RSD)

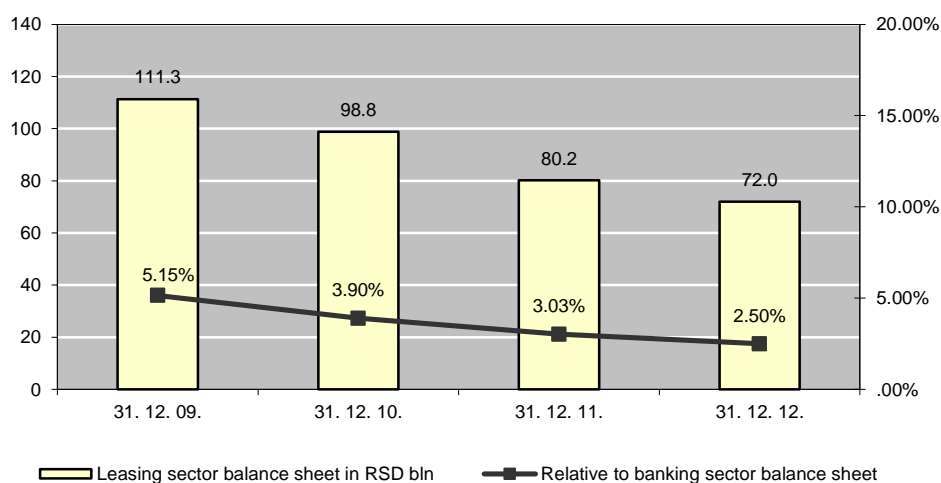
No.	ITEM	31/12/2011		31/12/2012		% growth 31/12/12/ 31/12/11
		amount	%	amount	%	
3.1.2.	Short-term foreign credit	0	0.0	0	0.0	-
3.1.3.	<i>Liabilities under interest and other costs of financing</i>	57,839	0.1	34,413	0.2	-40.5
3.2.	Financial lease liabilities	270,223	0.3	210,988	0.3	-21.9
3.3.	Other liabilities and deferred tax liabilities	1,129,627	1.4	1,089,786	1.5	-3.5

Source: National Bank of Serbia.

2.2. Balance sheet total of lessors and banks

As at 31 December 2012, the ratio of balance sheet total of the leasing sector (RSD 72.0 bln) to banking sector balance sheet total equalled 2.50%, as illustrated in Chart 1.

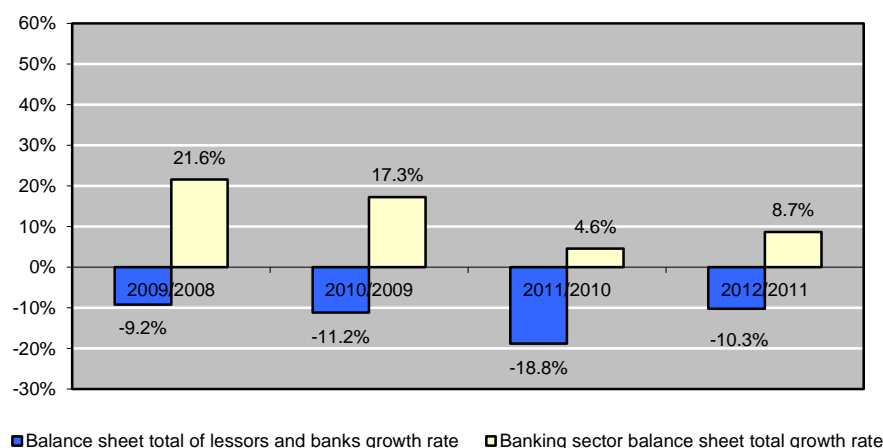
Chart 1 – Balance sheet total of lessors and banks
(in RSD bln)



Source: NBS

From 31 December 2011 to 31 December 2012, leasing sector balance sheet total declined by 10.3%, while banking sector balance sheet total increased by 8.7% (Chart 2).

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



Source: NBS

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, based on individual market shares by the level of receivable from financial leasing (portfolio), receivables were ranked by their level.

Table 4 – Market share of lessors

Rank	Lessor	Balance sheet assets (in 000 RSD)	Share 2011	Cumul. share 2011	Rank	Lessor	Balance sheet assets (in 000 RSD)	Share 2012	Cumul. share 2012	Rank-portfolio 2012
1.	Hypo Alpe-Adria-Leasing d.o.o. Beograd	20,031,305	25.0%	25.0%	1.	Hypo Alpe-Adria-Leasing d.o.o. Beograd	15,491,443	21.5%	21.5%	1
2.	Intesa Leasing d.o.o. Beograd	6,673,318	8.3%	33.3%	2.	Leasing Srbija d.o.o. Beograd	6,982,056	9.7%	31.2%	2
3.	NLB Leasing d.o.o. Beograd	6,605,194	8.2%	41.5%	3.	Intesa Leasing d.o.o. Beograd	6,876,255	9.6%	40.8%	4
4.	Raiffeisen Leasing d.o.o. Beograd	6,510,351	8.1%	49.6%	4.	NLB Leasing d.o.o. Beograd	5,333,419	7.4%	48.2%	8
5.	EFG Leasing a.d. Beograd	6,055,634	7.5%	57.2%	5.	VB Leasing d.o.o. Beograd	5,302,562	7.4%	55.6%	3
6.	VB Leasing d.o.o. Beograd	5,571,863	6.9%	64.1%	6.	NBG Lizing d.o.o. Beograd	5,002,533	6.9%	62.5%	5
7.	UniCredit Leasing Srbija d.o.o. Beograd	4,854,091	6.1%	70.2%	7.	Sogelease Srbija d.o.o. Beograd	4,778,604	6.6%	69.1%	6
8.	NBG Lizing d.o.o. Beograd	4,595,310	5.7%	75.9%	8.	Raiffeisen Leasing d.o.o. Beograd	4,653,029	6.5%	75.6%	7

Table 4 – Market share of lessors

Rank	Lessor	Balance sheet assets (in 000 RSD)	Share 2011	Cumul. share 2011	Rank	Lessor	Balance sheet assets (in 000 RSD)	Share 2012	Cumul. share 2012	Rank-portfolio 2012
9.	Sogelease Srbija d.o.o. Beograd	4,303,441	5.4%	81.3%	9.	CA Leasing Srbija d.o.o. Beograd	2,937,424	4.1%	79.7%	9
10.	CA Leasing Srbija d.o.o. Beograd	2,933,210	3.7%	84.9%	10.	S-Leasing d.o.o. Beograd	2,784,128	3.8%	83.5%	10
11.	LIPAKS d.o.o. Beograd	2,836,154	3.5%	88.5%	11.	ERB Leasing a.d. Beograd	2,734,284	3.8%	87.3%	12
12.	S-Leasing d.o.o. Beograd	2,729,862	3.4%	91.9%	12.	LIPAKS d.o.o. Beograd	2,506,010	3.5%	90.8%	14
13.	Procredit Leasing d.o.o. Beograd	2,291,153	2.9%	94.7%	13.	Porsche Leasing SCG d.o.o. Beograd	2,197,173	3.1%	93.9%	11
14.	Porsche Leasing SCG d.o.o. Beograd	1,904,510	2.4%	97.1%	14.	Piraeus Leasing d.o.o. Beograd	2,063,740	2.8%	96.7%	15
15.	Piraeus Leasing d.o.o. Beograd	1,711,445	2.1%	99.2%	15.	Procredit Leasing d.o.o. Beograd	1,772,489	2.5%	99.2%	13
16.	Zastava Istrabenz Lizing d.o.o. Beograd	522,377	0.7%	99.9%	16.	Zastava Istrabenz Lizing d.o.o. Beograd	572,678	0.8%	100.0%	16
17.	OTP Leasing d.o.o. Novi Sad	84,259	0.1%	100.0%						
TOTAL		80,213,477	100.0%	-	TOTAL		71,987,827	100.0%	-	
Herfindahl-Hirschman Index		1,086.2			Herfindahl-Hirschman Index		974.1			

Source: National Bank of Serbia.

The HHI of 974.1 on 31 December 2012 points to competitiveness of the Serbian financial leasing market.

As illustrated in Table 4, the ranking of lessors by market share changed from end-2011. The market share of the top lessor kept its leading position, with its market share down from 25.0% to 21.5%.

Relative to 2011, the greatest change in ranking and market share by the level of balance sheet assets as of 31 December 2012 was recorded for:

- UniCredit Leasing Srbija d.o.o. Beograd – moved from the seventh to the second position, with its market share up from 6.1% to 9.7%,
- Raiffeisen Leasing d.o.o. Beograd – moved from the fourth to the eighth position, with its market share down from 8.1% to 6.5%, and
- ERB Leasing a.d. Beograd – moved from the fifth to the eleventh position, with its market share down from 7.5% to 3.8%.

The greatest change in ranking relative to balance sheet assets and portfolio level was recorded in NLB Leasing d.o.o. Beograd (at the eighth position by the portfolio level, at the fourth position by the portfolio level) and VB Leasing d.o.o. Beograd (at the third position by the portfolio level, at the fifth position by the balance sheet assets).

2.4. Profit and loss account

In 2012, total profit before tax of all financial lessors was RSD 19.1 mln (in 2011 it was RSD 315.5 mln). Eleven lessors posted positive profit before tax of RSD 680.7 mln, while five lessors had a negative result of RSD 661.6 mln. In the period under review, relative to 2011, total income and gains dropped by 10.1% and total expenses and losses by 6.3%.

Interest income from leasing accounted for the major part of total income, its share up from 71.3% in 2011 to 72.6% in 2012. Income from 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 12.5% of total income. Net income from exchange rate differentials and currency clause effects accounted for 5.0%, net income from other interest 5.8%, and other income and gains 3.9%.

Interest expenses arising from leasing operations accounted for the largest share of total expenses. Their share in total income rose from 32.0% in 2011 to 34.1% in 2012. Net expenses of asset valuation adjustment accounted for 21.6% of total expenses; earnings, fees, salaries and other personal expenses for 17.0%; and other operating expenses for 17.6%. Expenses arising from leasing operations accounted for 3.8%, depreciation and provisioning for 2.1%, and other losses and expenses 2.3%.

Table 5 – Aggregate profit and loss account of all lessors
(in 000 RSD)

No.	ITEM	01/01– 31/12/11	% of tot. inc.	01/01– 31/12/12	% of tot. inc.	% growth 2012/ 2011
INCOME AND EXPENSES FROM REGULAR OPERATIONS						
OPERATING INCOME AND EXPENSES						
1.	Interest income from leasing	5,146,903	71.3	4,705,738	72.6	-8.6
2.	Interest expenses from leasing	2,308,819	32.0	2,211,019	34.1	-4.2
3.	Income from leasing	893,762	12.4	808,624	12.5	-9.5
4.	Expenses from leasing	274,920	3.8	248,859	3.8	-9.5
1.	BUSINESS RESULT	3,456,926	47.9	3,054,484	47.1	-11.6
OTHER INCOME AND EXPENSES						
5.	Net income from other interest	526,229	7.3	373,022	5.8	-29.1
6.	Net expenses from other interest	0	0.0	0	0.0	-
7.	Net income from exchange rate differentials and currency clause effects	188,872	2.6	326,686	5.0	73.0
8.	Net expenses from exchange rate differentials and currency clause effects	0	0.0	0	0.0	-
9.	Net income from share in income of related legal entities and joint investment	18,578	0.3	0	0.0	-100.0
10.	Net expenses from share in losses of related legal entities and joint investment	0	0.0	0	0.0	-

Table 5 – Aggregate profit and loss account of all lessors
(in 000 RSD)

No.	ITEM	01/01– 31/12/11	% of tot. inc.	01/01– 31/12/12	% of tot. inc.	% growth 2012/ 2011
11.	Net income from sale and lease	0	0.0	0	0.0	-
12.	Net losses from sale and lease	141,041	2.0	77,012	1.2	-45.4
13.	Earnings, fees, salaries and other personal expenses	1,082,300	15.0	1,102,764	17.0	1.9
14.	Depreciation and provisioning	166,537	2.3	137,862	2.1	-17.2
15.	Other operating expenses	1,149,750	15.9	1,139,113	17.6	-0.9
16.	Net income from sale of intangible investment, property, plant, equipment and other assets	13,818	0.2	12,381	0.2	-10.4
17.	Net loss from sale of intangible investment, property, plant, equipment and other assets	0	0.0	0	0.0	-
18.	Net income from sale of share in capital and securities	266	0.0	360	0.0	35.3
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	1,465,217	20.3	1,397,346	21.6	-4.6
22.	Other income and gains	426,247	5.9	255,928	3.9	-40.0
23.	Other expenses and losses	310,604	4.3	149,678	2.3	-51.8
II.	REGULAR OPERATING RESULT	315,487	4.4	19,086	0.3	-94.0
24.	NET GAIN FROM DISCONTINUED OPERATIONS	47	0.0	0	0.0	-100.0
25.	NET LOSS FROM DISCONTINUED OPERATIONS	36	0.0	16	0.0	-55.6
III.	PRE-TAX RESULT	315,498	4.4	19,070	0.3	-94.0
26.	PROFIT TAX					
26.1.	1. Tax expense of the period	266,340	3.7	205,354	3.2	-22.9
26.2.	2. Deferred tax expenses of the period	93,229	1.3	94,717	1.5	1.6
26.3.	3. Deferred tax income of the period	2,444	0.0	22,769	0.4	831.6
27.	Paid personal income to employer	0	0.0	0	0.0	-
IV.	NET RESULT	-41,627	-0.6	-258,232	-4.0	520.3
V.	TOTAL INCOME AND PROFIT	7,214,722	100.0	6,482,739	100.0	-10.1
VI.	TOTAL EXPENSES AND LOSSES	6,899,224	95.6	6,463,669	99.7	-6.3

Source: National Bank of Serbia.

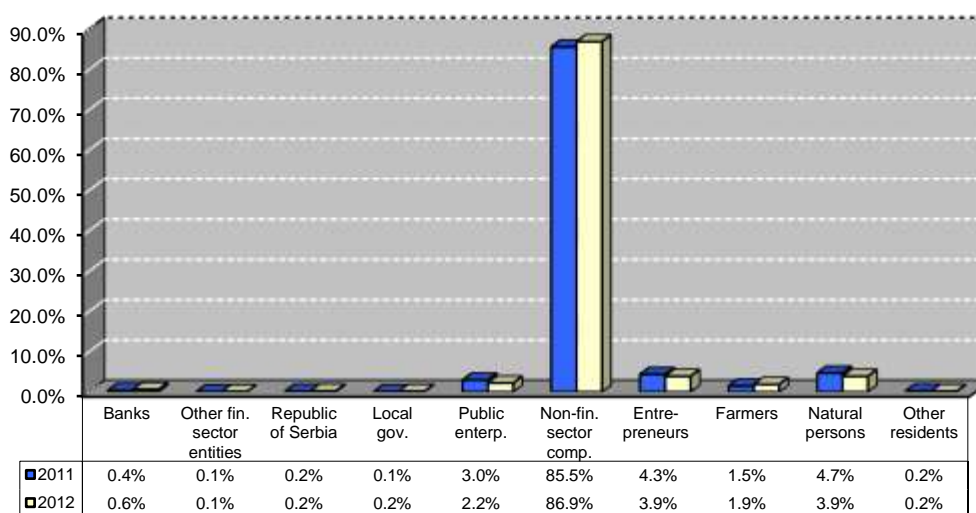
3. Structure of investments and assets quality

3.1. Lessees

Like at end-2011, most financial lease arrangements (Chart 3) were approved to non-financial sector companies (86.9%).

The share of natural persons and entrepreneurs was 3.9% respectively, public enterprises – 2.2%, and farmers – 1.9%. The share of the remaining categories was below 1% each.

Chart 3 - Investment structure by lessee

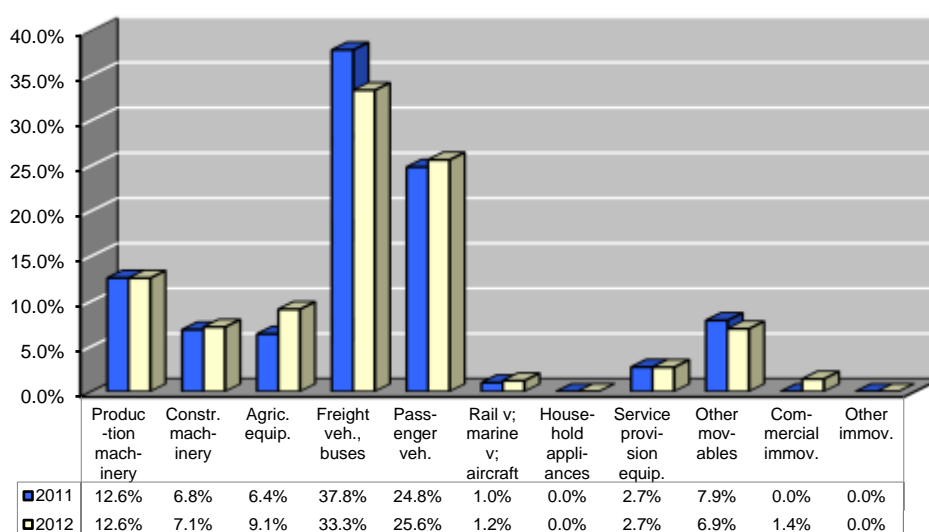


Source: NBS

3.2. Lease asset

In 2012, there were no major changes in the structure of lease investments by the lease asset (Chart 4) relative to the previous year. The financing of freight vehicles, minibuses and buses continued to account for the largest share of lease investments – 33.3% (37.8% in 2011). Next in size was the share of passenger vehicles – 25.6% (24.8% in 2011).

Chart 4 - Investment structure by lease object



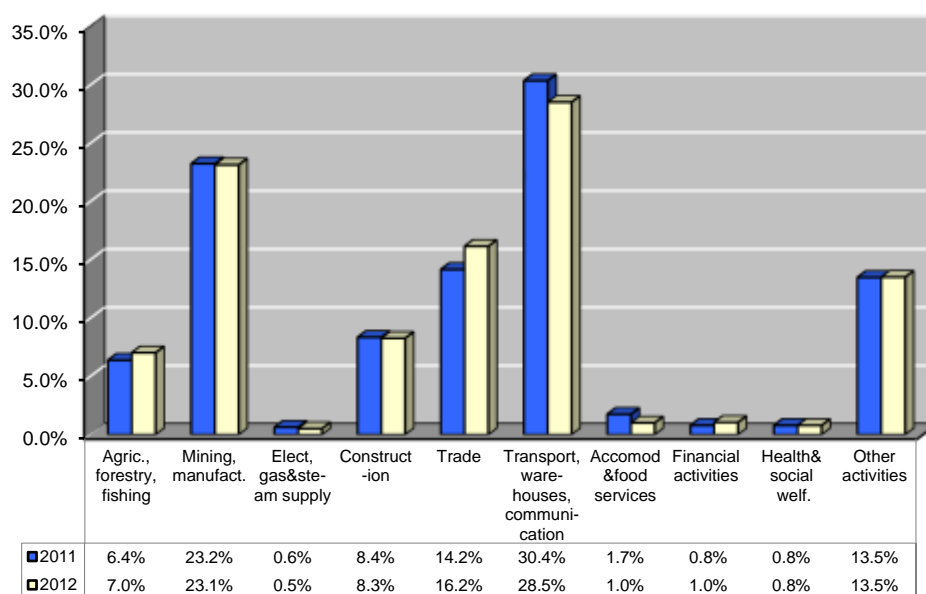
Source: NBS

The share of financing agricultural equipment upped from 6.4% in 2011 to 9.1% in 2012, as well as the share of financing of construction machinery – from 6.8% to 7.1%, whereas the share of financing other lease assets declined from 7.9% to 6.9%. The share of financing of production machinery remained the same at 12.6%, as well as the share of financing service provision equipment, at 2.7%.

3.3. Investment structure by sector

As at 31 December 2012 the most significant share in total financial lease investments (Chart 5) was that of transport, warehousing, information and communications (28.5% vs. 30.4% in 2011). A significant share was also noted for manufacturing together with mining and water supply (23.1% vs. 23.2% in 2011), trade (16.2% vs. 14.2% in 2011), other activities (13.5%, the same as in 2011), construction (8.3% vs. 8.4% in 2011), and agriculture, forestry and fishing (7.0% vs. 6.4% in 2011).

Chart 5 - Investment structure by sector



Source: NBS

3.4. Assets quality

On 31 December 2012, the value of financial lessors' portfolio was RSD 59.2 bln, which represents a 6.5% decline relative to end-2011 (RSD 63.3 bln).

Past due gross receivables reached RSD 11.5 bln, making up 17.2% of gross receivables in respect of financial leasing (14.7% in 2011), while the net book value of past due receivables was RSD 5.4 bln – its share in portfolio was 9.1% (5.9% in 2011), and in capital 69.5% (46.5% in 2011).

At end-2012, financial leasing receivables past due for more than 90 days accounted for 14.4% of total receivables (10.4% in 2011), while the net book value of these receivables accounted for 6.6% (2.8% in 2011) of the total portfolio.

The share of value adjustment of due and undue receivables came at RSD 7.3 bln on 31 December 2012, while its share in total gross receivables was 11.0%, which is an increase relative to end-2011 when it equalled 10.2%.

In 2012, the value of returned lease assets was almost RSD 3.2 bln, which, together with outstanding balances from previous years, came to RSD 4.9 bln or 8.2% of the portfolio and 62.8% of capital (at end-2011, 9.0% and 71.1% respectively). Of the above value of the returned lease assets, lessors re-leased 21.5%, sold 36.7%, while nearly 36% remained unemployed. The value of returned lease assets was reduced

through valuation adjustment by 6.0%. As at 31 December 2012, the stock of returned lease assets came at RSD 1.7 bln or 2.9% of the portfolio and 22.4% of capital (at end-2011, the stock of returned lease assets came at 2.5% of the portfolio and 19.9% of capital).

4. Performance indicators

Performance indicators of financial leasing providers (ROA and ROE) were positive at end-2012 owing to the positive pre-tax result.

As the average deposit interest rate increased more than the lending rate did, net interest margin got reduced.

The coverage of interest income went down, and operating expenses rose relative to average investment.

As equity decreased less than debt, solvency in the financial leasing market improved. This is supported by the fact that total debt and long-term debt were 8.32 and 7.99 times higher than capital, respectively.

Table 6 – Performance indicators

PERFORMANCE INDICATOR	31/12/2011	31/12/2012
Return on assets (ROA)	0.35%	0.03%
Return on equity (ROE)	3.91%	0.24%
Net interest margin	4.90%	4.68%
Average lending rate	8.29%	8.38%
Average deposit rate	2.91%	3.39%
Coverage of interest expenses	1.14x	1.01x
Operating expenses to average investment	3.50%	3.89%
Total debt to equity	8.99x	8.32x
Long-term debt to equity	8.69x	7.99x

Source: National Bank of Serbia.

5. Sources of financing and reserve balances

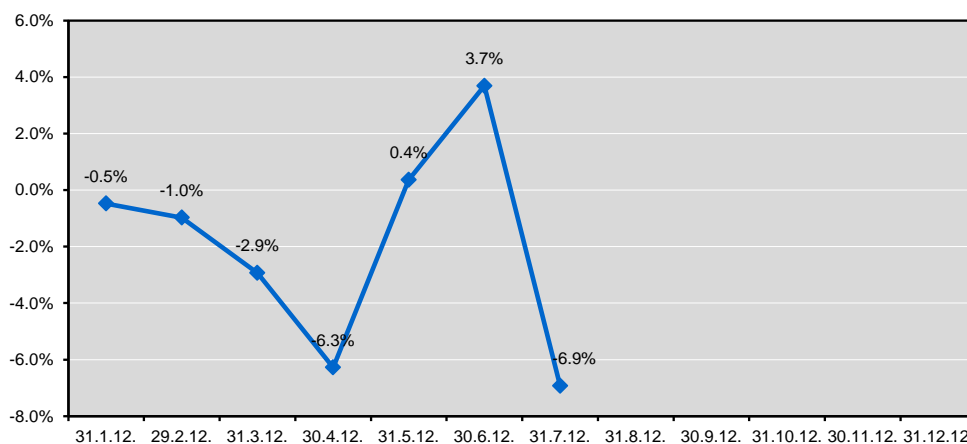
The balance sheet structure indicates that the largest portion of financial lease investment was financed from foreign borrowing – as at 31 December 2012, foreign credit obligations made up 82.3% of total liabilities, while financial lease investment accounted for 82.2% of total assets. The share of long-term domestic credits declined from 5.7% in 2011 to 3.3% of total liabilities, while the share of short-term domestic credits increased from 1.2% (end-2011) to 1.7% (end-2012). In the majority of cases,

foreign creditors of leasing companies were either their founders or legal entities operating within the same banking group.

In order to reduce the cost of financial leasing and strengthen the competitive position of lessors in the financial market, the NBS adopted the Decision Repealing the Decision on Lessors' Obligation to Maintain a Reserve Balance. The Decision abolished the lessors' obligation to calculate reserve balance for obligations under loans, other borrowings and supplementary payments received from abroad, as well as their obligation to keep reserve balance in special accounts with banks.

The reserving base as at 17 August 2012 (against which allocation was made on 31 July) increased by around 7.9 times relative to the reserving base as at 31 January 2006 (against which the first calculation and allocation were made on 10 February 2006) to reach EUR 419.4 mln.

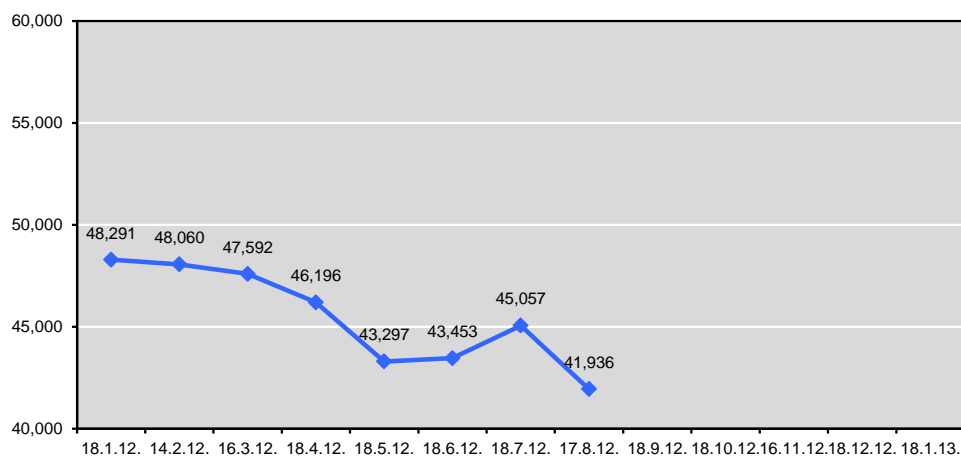
Chart 6 - Changes in the reserving base
(relative to the previous month)



Source: NBS

As at 17 August 2012, total calculated and allocated reserve balances of lessors amounted to EUR 41.9 mln.

Chart 7 - Total reserves allocated by lessors
(in EUR thousand)



Source: NBS