



NATIONAL BANK OF SERBIA

BANK SUPERVISION DEPARTMENT

FINANCIAL LEASING SECTOR IN SERBIA

First Quarter Report 2015

June 2015

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1. Market participants

1.1. Number of lessors

At end-Q1 2015, 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. Heta 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 end-2012. However, during 2013 the number of employees increased and amounted to 435 on 31 December 2013 and stayed the same in 2014. On 31 March 2015 the number of employees in the financial leasing sector was 437. The average number of employees per lessor was around 27 at the end of Q1 2015.

Table 1 – Number of employees in the financial leasing sector

Date	Number of employees
31/12/2009	489
31/12/2010	476
31/12/2011	482
31/12/2012	426
31/12/2013	435
31/12/2014	435
31/03/2015	437

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, the Netherlands EFG Eurobank Ergasias s.a, Athens, Greece Eurobank a.d. Beograd	48.63 25.81 25.56
3.	Heta 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 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

Table 2 – Lessor ownership structure

No	Lessor	Ownership	% of ownership
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, Austrija Erste Bank a.d. Novi Sad	25 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, Slovenija 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 March 2015 balance sheet assets of the leasing sector totalled RSD 57 bln, down by 12.9% relative to 31 December 2014. This relatively high percentage drop in balance sheet assets is due primarily to the acceptance of the assessment of the auditor who carried out the AQR. The bulk of assets was foreign currency clause indexed (89.2%), while the majority of liabilities was foreign currency denominated (77.9%).

The largest share of total assets was that of financial lease receivables, which increased from 85.7% at end-2014 to 87.3% at end-Q1 2015.

Relative to 2014, current assets decreased by 23.4%, reflecting chiefly a fall in short-term financial assets (29.3%) and cash and cash equivalents (15.1%). The share of short-term financial assets in total balance sheet assets decreased from 7.3% in 2014 to 5.9%, while the share of cash and cash equivalents in total balance sheet assets inched down from 3.0% to 2.9%. The share of other current assets and deferred tax assets declined from 1.8% in 2014 to 1.7%.

At end-Q1 2015, the capital of all lessors amounted to RSD 7.0 bln, which is almost the same as at end-2014. The share of capital in total balance sheet liabilities increased from 10.7% (in 2014) to 12.2%.

As at 31 March 2014, long-term liabilities accounted for the largest share of total liabilities – 84.6%, down by 11.3% from 2013. The share of long-term foreign credits went up from 76.9% (in 2014) to 77.6%, whereas the share of long-term domestic credits went from 6.2% in 2014 to 7.0%.

The share of short-term liabilities in total liabilities decreased significantly, from 5.3% in 2014 to 1.9% on 31 March 2015. Short-term domestic credits accounted for 0.2% of total liabilities (3.9% in 2014), while other liabilities and deferred tax liabilities made up 1.0% of total liabilities (0.9% in 2014) and financial lease liabilities made up 0.5% (0.3% in 2014).

The aggregate profit and loss account of all lessors in RSD 000 on 31 December 2014 and 31 March 2015 is given in Table 3.

Table 3 – Aggregate balance sheet of all lessors (in RSD 000)						
No	ITEM	31 Dec 2014		31 Mar 2015		% growth
		amount	%	amount	%	31/03/15 31/12/14
ASSETS		65,439,515	100.0	56,994,281	100.0	-12.9
1	FIXED ASSETS	56,605,450	86.5	50,252,141	88.2	-11.2
1.1	Property, plant and equipment	368,650	0.6	373,951	0.7	1.4
1.2	Financial lease receivables	56,087,162	85.7	49,752,279	87.3	-11.3
1.3	Long-term financial assets	45,709	0.1	30,422	0.1	-33.4
1.4	Other fixed assets	103,929	0.2	95,490	0.2	-8.1
2	CURRENT ASSETS	8,834,065	13.5	6,742,139	11.8	-23.4
2.1	Cash and cash equivalents	1,950,054	3.0	1,655,789	2.9	-15.1
2.2	Short-term financial lease receivables	533,687	0.8	400,705	0.7	-24.9
2.3	Short-term financial assets	4,772,573	7.3	3,373,581	5.9	-29.3
2.4	Other short-term receivables	373,078	0.6	339,241	0.6	-11.0
2.5	Other current assets and deferred tax assets	1,204,673	1.8	972,823	1.7	-16.2
LIABILITIES		65,439,515	100.0	56,994,281	100.0	-12.9
1	CAPITAL	7,029,192	10.7	6,970,754	12.2	-0.8
1.1	Share capital	7,318,616	11.2	11,885,629	20.9	62.4
1.2	Reserves	40,052	0.1	40,052	0.1	0.0
1.3	Revaluation reserves	36	0.0	36	0.0	0.0
1.4	Net unrealised gains/losses	-10,427	0.0	-1,738	0.0	-83.3
1.5	Retained earnings	3,225,344	4.9	3,351,213	5.9	3.9
1.6	Loss	3,544,429	5.4	8,304,438	14.6	134.3
1.7	Purchased own shares and stakes	0	0.0	0	0.0	-

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

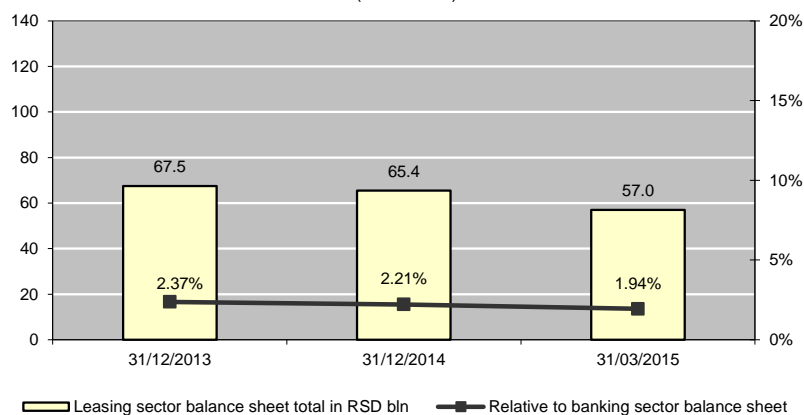
No	ITEM	31 Dec 2014		31 Mar 2015		% growth 31/03/15 31/12/14
		amount	%	amount	%	
2	LONG-TERM PROVISIONING AND LIABILITIES	54,924,526	83.9	48,963,714	85.9	-10.9
2.1	Long-term provisions	575,132	0.9	741,524	1.3	28.9
2.2	Long-term liabilities	54,349,394	83.1	48,222,190	84.6	-11.3
2.2.1	Long-term domestic credit	4,045,105	6.2	3,978,462	7.0	-1.6
2.2.2	Long-term foreign credit	50,268,002	76.8	44,207,663	77.6	-12.1
2.2.3	Other long-term liabilities	36,287	0.1	36,065	0.1	-0.6
3	SHORT-TERM LIABILITIES	3,485,797	5.3	1,059,813	1.9	-69.3
3.1	Short-term financial liabilities	2,634,285	4.0	200,415	0.4	-92.4
3.1.1	Short-term domestic credit	2,582,009	3.9	87,816	0.2	-96.6
3.1.2	Short-term foreign credit	0	0.0	0	0.0	-
3.1.3	Liabilities under interest and other costs of financing	52,276	0.1	112,599	0.2	115.4
3.2	Financial lease liabilities	255,852	0.4	291,840	0.5	32.1
3.3	Other liabilities and deferred tax liabilities	595,660	0.9	567,558	1.0	-4.7

Source: National Bank of Serbia.

2.2. Balance sheet total of lessors and banks

As at 31 March 2015, the ratio of balance sheet total of the leasing sector (RSD 57 bln) to banking sector balance sheet total equalled 1.9%, as illustrated in Chart 1.

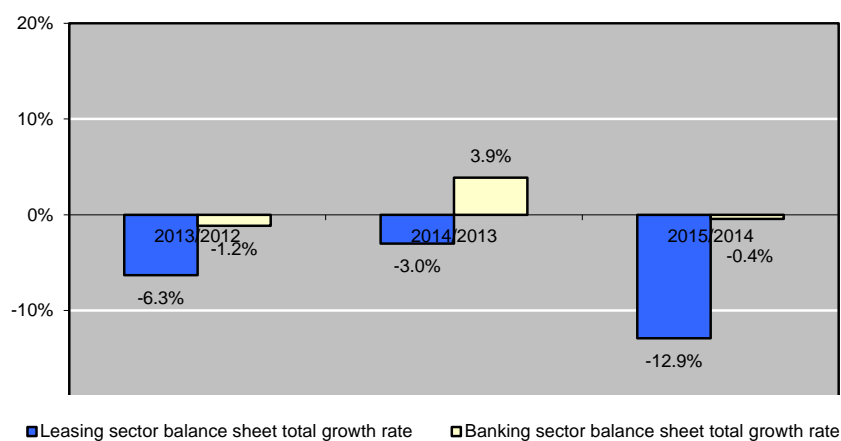
Chart 1 – Balance sheet total of lessors and banks
(in RSD bln)



Source: NBS

From 31 December 2014 to 31 March 2015, leasing sector balance sheet total shrunk by 12.9%, while banking sector balance sheet total decreased by 0.4% (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, 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

Ranking	Lessor	Balance sheet assets (in RSD 000)	Share 2014	Cumul. share 2014	Ranking	Lessor	Balance sheet assets (in RSD 000)	Share 2015	Cumul. share 2015	Rank – portfolio 2015
1	Intesa Leasing d.o.o. Beograd	9,036,153	13.8%	13.8%	3	UniCredit Leasing Srbija d.o.o. Beograd	7,035,935	12.3%	12.3%	1
2	Heta Leasing d.o.o. Beograd	7,911,845	12.1%	25.9%	1	Intesa Leasing d.o.o. Beograd	6,998,394	12.3%	24.6%	3
3	UniCredit Leasing Srbija d.o.o. Beograd	7,232,350	11.1%	37.0%	2	VB Leasing d.o.o. Beograd	6,031,952	10.6%	35.2%	2
4	VB Leasing d.o.o. Beograd	6,079,927	9.3%	46.2%	4	Sogelease Srbija d.o.o. Beograd	5,223,081	9.2%	44.4%	4

Table 4 – Market share of lessors

Ranking	Lessor	Balance sheet assets (in RSD 000)	Share 2014	Cumul. share 2014	Ranking	Lessor	Balance sheet assets (in RSD 000)	Share 2015	Cumul. share 2015	Rank – portfolio 2015
5	Sogelease Srbija d.o.o. Beograd	5,297,611	8.1%	54.3%	5	Raiffeisen Leasing d.o.o. Beograd	4,908,627	8.6%	53.0%	5
6	Raiffeisen Leasing d.o.o. Beograd	4,999,521	7.6%	62.0%	6	NBG Leasing d.o.o. Beograd	4,846,285	8.5%	61.5%	6
7	NBG Leasing d.o.o. Beograd	4,628,317	7.1%	69.0%	7	CA Leasing Srbija d.o.o. Beograd	3,632,869	6.4%	67.9%	7
8	CA Leasing Srbija d.o.o. Beograd	3,918,755	6.0%	75.0%	8	Heta Leasing d.o.o. Beograd	3,311,398	5.8%	73.7%	9
9	S-Leasing d.o.o. Beograd	3,410,550	5.2%	80.2%	9	S-Leasing d.o.o. Beograd	3,311,212	5.8%	79.5%	8
10	NLB Leasing d.o.o. Beograd	2,527,318	3.9%	84.1%	12	Porsche Leasing SCG d.o.o. Beograd	2,354,504	4.1%	83.6%	10
11	Porsche Leasing SCG d.o.o. Beograd	2,385,516	3.6%	87.8%	10	NLB Leasing d.o.o. Beograd	2,282,802	4.0%	87.6%	11
12	Piraeus Leasing d.o.o. Beograd	2,086,623	3.2%	90.9%	11	LIPAKS d.o.o. Beograd	1,811,887	3.2%	90.8%	15
13	LIPAKS d.o.o. Beograd	1,931,316	3.0%	93.9%	15	Piraeus Leasing d.o.o. Beograd	1,652,874	2.9%	93.7%	12
14	Procredit Leasing d.o.o. Beograd	1,800,471	2.8%	96.6%	13	Procredit Leasing d.o.o. Beograd	1,626,883	2.9%	96.6%	13
15	ERB Leasing a.d. Beograd	1,734,394	2.7%	99.3%	14	ERB Leasing a.d. Beograd	1,517,779	2.7%	99.2%	14
16	Zastava Istrabenz Lizing d.o.o. Beograd	458,848	0.7%	100.0%	16	Zastava Istrabenz Lizing d.o.o. Beograd	447,789	0.8%	100.0%	16
TOTAL		65,439,515	100.0%	-	TOTAL		56,994,281	100.0%	-	
Herfindahl–Hirschman Index		844.4			Herfindahl–Hirschman Index		821.3			

Source: National Bank of Serbia.

The HHI of 821.3 on 31 March 2015 points to competitiveness of the Serbian financial leasing market.

As illustrated in Table 4, the ranking of lessors by market share changed somewhat at end-Q1 2015 relative to end-2014.

The change in ranking and market share based on the size of balance sheet assets as at 31 March 2015 relative to end-2014 was recorded for the following lessors:

- Intesa Leasing d.o.o. Beograd, which moved from the 1st to the 2nd position, its market share decreasing from 13.8% to 12.3%. Total balance sheet assets of this lessor amounted to RSD 6,998,394 thousand;
- Heta Leasing d.o.o. Beograd, which moved from the 2nd to the 8th position, its market share decreasing from 13.8% to 5.8%;
- UniCredit Leasing d.o.o. Beograd, which moved from the 3rd to the 1st position, its market share increasing from 11.1% to 12.3%. Total balance sheet assets of this lessor amounted to RSD 7,035,935 thousand;

- VB Leasing d.o.o. Beograd, which moved from the 4th to the 3rd position, its market share increasing from 9.3% to 10.6%;
- Sogelease Srbija d.o.o. Beograd, which moved from the 5th to the 4th position, its market share increasing from 8.1% to 9.2%;
- Raiffeisen Leasing d.o.o. Beograd, moving from the 6th to the 5th position, its market share increasing from 7.6% to 8.6%;
- NBG Leasing d.o.o. Beograd, moving from the 7th to the 6th position, its market share increasing from 7.1% to 8.5%;
- CA Leasing d.o.o. Beograd, moving from the 8th to the 7th position, its market share increasing from 6.0% to 6.4%;
- NLB Leasing d.o.o. Beograd, moving from the 10th to the 11th position, its market share increasing from 3.9% to 4.1%;
- Porsche Leasing SCG d.o.o. Beograd, moving from the 11th to the 10th position, its market share increasing from 3.6% to 4.0%;
- Piraeus Leasing d.o.o. Beograd, moving from the 12th to the 13th position, its market share decreasing from 3.2% to 2.9% and
- LIPAKS d.o.o. Beograd, moving from the 13th to the 12th position, its market share increasing from 3.0% to 3.2%.

2.4. Profit and loss account

End-Q1 2015, total profit before tax of all financial lessors was positive at RSD 57 mln (in 2014 it was negative, at RSD 987.4 mln). Twelve lessors posted positive profit before tax in the amount of RSD 187.1 mln, while four lessors had a negative result before tax in the amount of RSD 130.1 mln. In the period under review, relative to 2014, total income and gains picked up by 13.2% and total expenses and losses dropped by 11.4%.

Interest income from financial leasing accounted for the major part of total income, its share down from 74.2% in 2014 to 64.7% end-Q1 2015. 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 liabilities) accounted for 12.0% of total income, net income from impairment of assets for 17.3%, while net income from other interest accounted for 1.6% and other income and gains for 3.5%.

Interest expenses arising from financial leasing operations accounted for the largest share of total expenses (26.0%) and total income (24.8%). The next were salaries, compensations and other expenses related to employees with a 23.2% share in total expenses and 22.1% share in total income. They were followed by other operating expenses which held a 17.4% share in total expenses and a 16.6% share in total

income. Other losses and expenses accounted for 14.5% of total expenses and 13.8% of total income. Expenses from financial leasing accounted for 5.0% of total expenses (4.7% of total income), and depreciation and provisioning – 3.1% of total expenses (3.0% of total income).

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

No	ITEM	01/01- 31/12/14	% of total income	01/01- 31/03/15	% of total income	% growth 2015/ 2014
INCOME AND EXPENSES FROM REGULAR OPERATIONS						
OPERATING INCOME AND EXPENSES						
1	Interest income from leasing	3,332,326	74.2	822,097	64.7	-1.3
2	Interest expenses from leasing	1,461,852	32.5	315,729	24.8	-13.6
3	Income from leasing	710,964	15.8	152,354	12.0	-14.3
4	Expenses from leasing	280,299	6.2	60,306	4.7	-13.9
I	BUSINESS RESULT	2,301,139	51.2	598,416	47.1	4.0
OTHER INCOME AND EXPENSES						
5	Net income from other interest	121,116	2.7	20,223	1.6	-33.2
6	Net expenses from other interest	0	0.0	0	0.0	-
7	Net income from exchange rate gains and currency clause effects	134,061	3.0	0	0.0	-100.0
8	Net expenses from exchange rate losses and currency clause effects	0	0.0	131,915	10.4	-
9	Net income from share in income of subsidiary legal entities and joint ventures	285	0.0	0	0.0	-100.0
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	10,215	0.8	-
12	Net loss from sale and lease	15,293	0.3	0	0.0	-100.0
13	Salaries, compensations and other expenses related to employees	1,173,008	26.1	281,278	5.6	-4.1
14	Depreciation and provisioning	190,545	4.2	37,891	3.0	-20.5
15	Other operating expenses	1,019,563	22.7	211,471	16.6	-17.0
16	Net gains from sale of intangible investment, property, plant, equipment and other assets	4,290	0.1	2,025	0.2	88.8
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	8	0.0	0	0.0	-100.0
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	219,329	17.3	-
21	Net expenses from asset valuation adjustment	713,925	15.9	0	0.0	-100.0

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

No	ITEM	01/01- 31/12/14	% of total income	01/01- 31/03/15	% of total income	% growth 2015/ 2014
22	Other gains and income	189,638	4.2	44,796	3.5	-5.5
23	Other losses and expenses	625,574	13.9	175,490	13.8	12.2
II	REGULAR OPERATING RESULT	-987,371	-22.0	56,959	4.5	-123.1
24	NET GAIN FROM DISCONTINUED OPERATIONS	0	0.0	0	0.0	-
25	NET LOSS FROM DISCONTINUED OPERATIONS	0	0.0	0	0.0	-100.0
III	PRE-TAX RESULT	-987,371	-22.0	56,959	4.5	-123.1
26	PROFIT TAX					
26.1	1. Tax expense of the period	112,534	2.5	24,201	1.9	-14.2
26.2	2. Deferred tax expenses of the period	17,274	0.4	0	0.0	-100.0
26.3	3. Deferred tax income of the period	900	0.0	9,200	0.7	4149.4
27	Paid personal income to employer	0	0.0	0	0.0	-
IV	NET RESULT	-1,116,279	-24.8	4,958	3.3	-115.0
V	TOTAL INCOME AND GAINS	4,492,688	100.0	1,271,039	100	13.2
VI	TOTAL EXPENSES AND LOSSES	5,480,059	122.0	1,214,080	95.5	-11.4

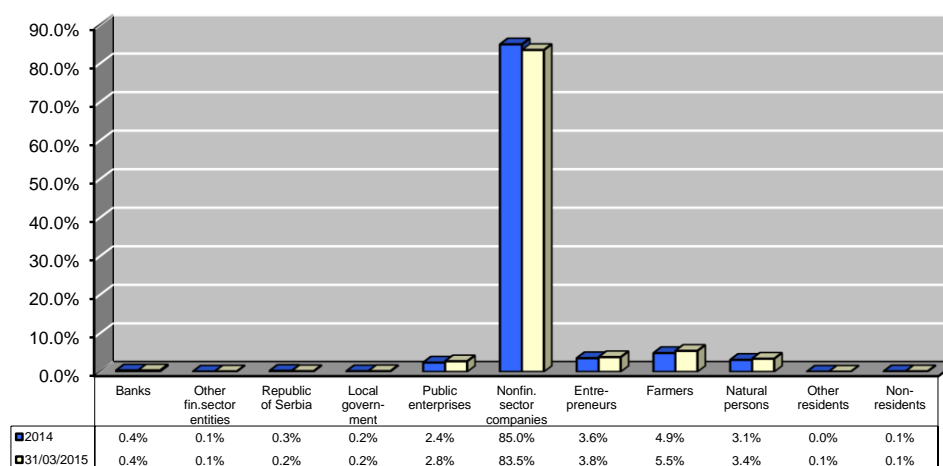
Source: National Bank of Serbia.

3. Structure of investments and assets quality

3.1. Lessees

At end-Q1 2015, like at end-2014, most financial lease arrangements (Chart 3) were approved to non-financial sector companies (83.5%).

Chart 3 - Investment structure by lessee



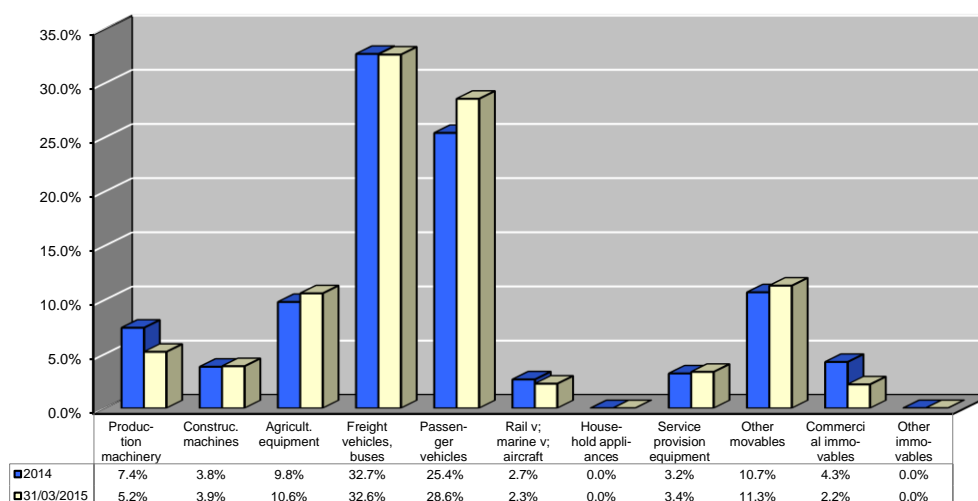
Source: NBS

The share of other lessees is significantly smaller. The share of farmers was 5.5%, entrepreneurs – 3.8%, natural persons – 3.4% and public enterprises – 2.8%.

3.2. Lease assets

There were no significant changes in the structure of lease investments by the lease asset in early 2015 relative to 2014 (Chart 4). The financing of freight vehicles, minibuses and buses continued to account for the largest share of lease investments with 32.6% (down from 32.7% in 2014). Next in size was the financing of passenger vehicles – 28.6% compared to 25.4% in 2014.

Chart 4 - Investment structure by lease asset



Source: NBS

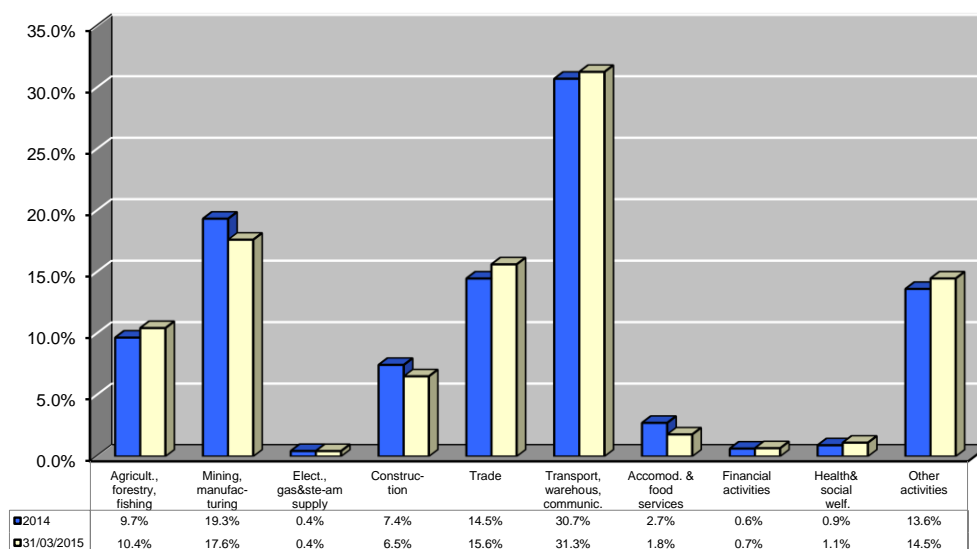
The financing of other movables increased from 10.7% in 2014 to 11.3%, while the financing of agricultural machinery and equipment rose from 9.8% to 10.6%. At the same time, the financing of production machinery and equipment fell from 7.4% to 5.2%.

3.3. Investment structure by sector

As at 31 March 2015 the most significant share in total financial lease investments (Chart 5) was that of transport, warehousing, information and communications – 31.3% (30.7% in 2014) and that of manufacturing together with mining and water supply – 17.6% (19.3% in 2014).

A significant share was also noted at trade – 15.6% (14.5% in 2014), other activities – 14.5% (13.6% in 2014), agriculture, forestry and fishing – 10.4% (9.7% in 2014) and construction – 6.5% (7.4% in 2014).

Chart 5 - Investment structure by sector



Source: NBS

3.4. Asset quality

On 31 March 2015, the value of financial lessors' portfolio was RSD 49.8 bln, which represents an 11.3% decline relative to end-2014 (RSD 56 bln).

Past due gross receivables reached RSD 10 bln, making up 16.1% of gross receivables in respect of financial leasing (15.1% in 2014), while the net book value of past due receivables was RSD 1.6 bln – its share in portfolio was 3.2% (4.4% in 2014), and in capital 23.0% (34.9% in 2014).

In early 2015, receivables past due more than 90 days made up the largest part of total past due receivables. In fact, they accounted for 14.0% of total gross financial lease receivables (down from 13.2% in 2014), while their net book value made up 1.6% of the total portfolio (2.7% in 2014).

The share of value adjustment of due and undue receivables came at RSD 12.5 bln on 31 March 2015, while its share in total gross receivables was 20.0%, which is an increase relative to end-2014 when it equalled 12.7%.

In Q1 2015, the value of returned lease assets was RSD 203 mln which, together with outstanding balances from previous years, came to almost RSD 970 mln or 1.9% of the portfolio and 13.9% of capital (5.1% and 40.0% at end-2014). Of the returned lease assets, lessors re-leased 7.3%, sold 25.6%, while nearly 54.9% remained unemployed. The value of returned lease assets was reduced through valuation adjustment by 12.3%. As at 31 March 2015, the stock of returned lease assets came at RSD 532 mln or 1.07% of the portfolio and 7.6% of capital (at end-2014, the stock of returned lease assets came at 1.2% of the portfolio and 9.6% of capital).

4. Performance indicators

Table 6 – Performance indicators

PERFORMANCE INDICATORS	31 Dec 2014	31 Mar 2015
Return on assets (ROA)	-1.49%	0.37%
Return on equity (ROE)	-15.18%	3.25%
Net interest margin	3.62%	3.98%
Average lending rate	6.48%	6.55%
Average deposit rate	2.69%	2.58%
Coverage of interest expenses	0.37x	1.17x
Operating expenses to average investment	4.33%	4.01%
Total debt to equity	8.31x	7.18x
Long-term debt to equity	8.50x	7.02x

Source: National Bank of Serbia.

In Q1 2015, performance indicators of financial leasing providers (ROA and ROE) were positive owing to the positive pre-tax result, unlike in 2014 when both the indicators and the result were negative.

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

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

As total debt and long-term debt to equity decreased, and capital remained almost unchanged from last quarter, solvency in the financial leasing market improved.

5. Sources of financing

The balance sheet structure indicates that the largest portion of financial lease investments was financed from foreign borrowing – as at 31 March 2015, foreign credit liabilities made up 77.6% of total liabilities, while financial lease investments accounted for 87.3% of total assets. In the majority of cases, foreign creditors of leasing companies were either their founders or legal entities operating within the same banking group. The share of long-term domestic credits increased from 6.2% of total liabilities in 2014 to 7.0% at end-Q1 2015, while the share of short-term domestic credits decreased significantly, from 3.9% at end-2014 to 0.2% of total liabilities at end-Q1 2015.