



NATIONAL BANK OF SERBIA
BANK SUPERVISION DEPARTMENT

FINANCIAL LEASING SECTOR IN SERBIA

First Quarter Report 2017

June 2017

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1 Basic information about the Serbian financial leasing sector¹

At end-Q1 2017, as in the previous period, 16 lessors operated in the Serbian financial leasing sector:

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 undergoing liquidation	15	VB Leasing d.o.o. Beograd
8	Piraeus Leasing d.o.o. Beograd	16	Zastava Istrabenz Lizing d.o.o. Beograd

1.1 Overview of the basic parameters relevant to the financial leasing sector

(number of employees, total balance sheet assets, total capital – by residence of the lessor's founder and total amount)

Table 1 Overview of basic parameters
(in RSD thousands, in %, as at 31/3/2017)

Ownership structure by owner nationality (residence)	Number	Assets		Capital		Employees	
		Amount	Share	Amount	Share	Number	Share
Lessors in 100% or majority ownership of domestic entities	8	50,894,188	77.3%	4,929,778	57.7%	255	68.5%
Lessors in 100% or majority ownership of foreign legal entities	8	14,935,055	22.7%	3,619,265	42.3%	117	31.5%
Total	16	65,829,243	100.0%	8,549,043	100.0%	372	100.0%

Ownership structure of lessors by founder's residence remained unchanged compared to the prior quarter. Namely, eight lessors in total were in 100% or majority ownership of foreign legal entities, while other eight lessors were in 100% or majority ownership of domestic entities (of which seven were owned by domestic banks in foreign ownership) (Table 1).

¹ All data contained in the Report are based on reports submitted by lessors to the NBS for Q4 2016 in accordance with regulations. The accuracy of data in the reports was not subject to on-site supervision of the NBS.

Specification of lessors with percentage of owners' share in the lessors' capital is shown in Table 2.

Table 2 – Lessor ownership structure

No	Lessor	Owner	% 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 undergoing liquidation	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	100
12	S-Leasing d.o.o. Beograd	Steiermarkische Bank und Sparkassen Aktiengesellschaft, Graz, Austria Erste Bank a.d. Novi Sad	25 75
13	Sogelease Srbija d.o.o. Beograd	Societe Generale Bank Srbija a.d Beograd	100
14	UniCredit Leasing Srbija d.o.o. Beograd	UniCredit bank Srbija a.d Beograd	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 Group Zastava Vehicles a.d. Kragujevac – undergoing restructuring	95.2 4.8

Source: NBS.

The classification of lessors by sector of the founder (banking/non-banking sector) has not changed since the establishment of a regulated financial leasing market in

Serbia. Fourteen lessors were founded by banks, banking group members or other financial institutions, while only two lessors were in majority ownership of non-banking sector entities.

At the end of the quarter, **the number of employees** in the financial leasing sector was 372, down by 12 from the prior quarter.

Total balance sheet assets of the financial leasing sector equalled RSD 65.8 bn (decreasing by 0.7% compared to the end of the previous quarter).

Total capital equalled RSD 8.5 bn (rising by 2.2% compared to end of the previous quarter).

As in the previous quarter, combined balance sheet assets of four lessors show that their share in the financial leasing market was as much as 56.8%, another three lessors held individual shares of below 10.0%, while individual market shares of the remaining nine lessors were less than 5.0%.

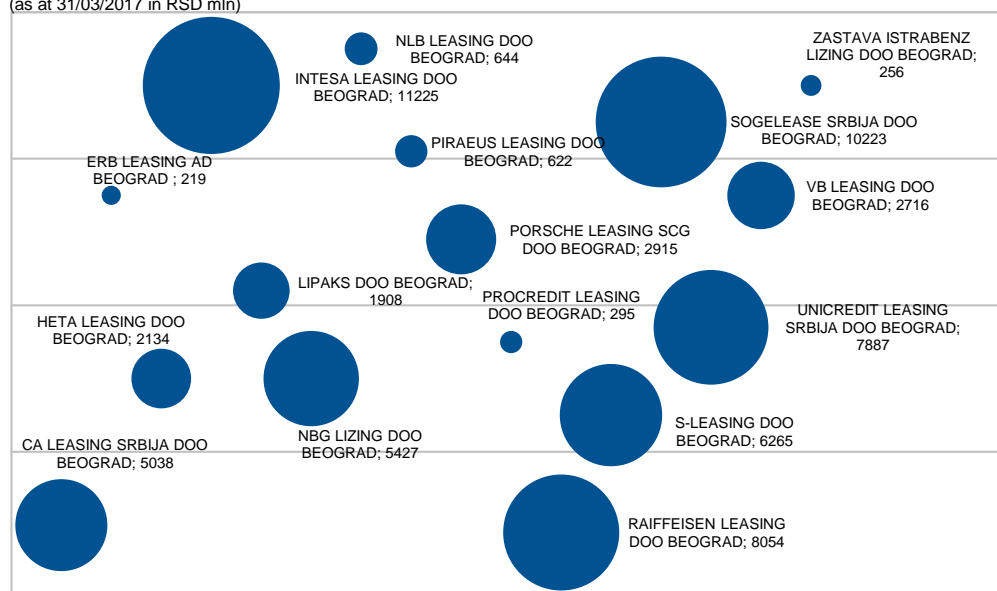
Financial leasing sector is profitable – ROA as at 31 March 2017 amounted to 2.29%, while ROE was 17.91%.

Financial leasing sector has a very low share of non-performing investment in total lease investment. The share of uncollected receivables past due more than 90 days is relatively low relative to both gross and net financial lease receivables.

As at 31 March 2017, gross receivables past due more than 90 days made up 7.9% of total gross receivables, while net receivables past due more than 90 days accounted for only 0.6% of total net receivables under financial leasing.

The data on the percent of individual lessors on the Serbian financial leasing market by total balance sheet assets and by the amount of receivables (portfolio) are contained in the second part of this report which refers to the balance sheet structure.

Chart - 1 **Balance sheet total of leasing sector**
(as at 31/03/2017 in RSD mln)



Source: National bank of Serbia

Net profit at end-Q1 2017 reached RSD 353.1 mn. Of the total of 16 lessors, two lessors had a negative net result.

At the end of Q1 2017, seven lessors (*Intesa Leasing d.o.o. Beograd*, *NBG Lizing d.o.o. Beograd*, *CA Leasing d.o.o. Beograd*, *Sogelease Srbija d.o.o. Beograd*, *VB Leasing d.o.o. Beograd*, *S-Leasing d.o.o. Beograd* and *UniCredit Leasing d.o.o. Beograd*) had previous consent of the NBS for rendering insurance agency services, though the share of income generated on this account does not represent a significant item in their total income.

One lessor is undergoing voluntary liquidation, approved by the NBS.

2 Balance sheet structure

2.1 Balance sheet

On 31 March 2017, balance sheet assets of the leasing sector totalled RSD 65.8 bn, negligibly decreasing by 0.7% relative to the previous quarter.

The largest share of total balance sheet assets was that of financial lease receivables (portfolio) (87.6%). These receivables amounted to RSD 57.6 bn or 1.3% more than in the previous quarter.

Lessors' current assets recorded a decrease by 14.0%. The reduction was mostly driven by a decline in cash and cash equivalents by 28.6% compared to the end of the previous quarter.

At end-Q1 2017, the capital of all lessors amounted to RSD 8.5 bn, with a 13.0% share in total balance sheet liabilities. Total capital increased by 2.2% relative to the end of the prior quarter.

As at 31 March 2017, long-term liabilities accounted for the largest share of lessors' total balance sheet liabilities – 77.3%. Long-term loans from foreign creditors made up the dominant share of long-term liabilities (a 67.9% share of total liabilities). Incidentally, in the majority of cases, foreign creditors of leasing companies were either their founders or legal entities operating within the same banking group.

Relative to 31 December 2016, total long-term liabilities increased by 3.8%, as at 31 March 2017.

Long-term foreign borrowing made up the dominant share of long-term liabilities (a 67.9% share of total liabilities). At end-Q1 2017, long-term domestic loans held a 9.4% share in total balance sheet liabilities, up by 2.4%, relative to the previous quarter.

As at 31 March 2017, the share of short-term liabilities in total balance sheet liabilities went down from 12.2% to 8.5% compared to end-2016. The bulk of short term liabilities are made of domestic short term loans (67.8). The total short-term

liabilities as at 31 March 2017 reached RSD 5.6 bn, which represents a 30.8% decrease relative to the previous quarter (RSD 8.1 bn).

The bulk of lessors' balance sheet assets were foreign currency indexed receivables (86.2%), while the majority of balance sheet liabilities were foreign currency denominated (68.2%), which is in line with the structure of debt, given the creditors' residence.

The comparative balance sheet of lessors in RSD thousands as at 31 December 2016 and 31 March 2017 is presented in Table 3.

Table 3 The comparative balance sheet of lessors (in RSD thousands)

Number	ITEM	31 12 2016		31 3 2017		% growth 31 03 17/ 31. 12 16
		Amount	%	Amount	%	
ASSETS		66,270,193	100.0	65,829,243	100.0	-0.7
1	FIXED ASSETS	58,239,540	87.9	58,925,948	89.5	1.2
1.1	Property, plant and equipment	219,305	0.3	209,259	0.3	-4.6
1.2	Financial lease receivables	56,912,588	85.9	57,643,871	87.6	1.3
1.3	Long-term financial assets	1,062,644	1.6	1,027,480	1.6	-3.3
1.4	Other fixed assets	45,003	0.1	45,338	0.1	0.7
2	CURRENT ASSETS	8,030,653	12.1	6,903,295	10.5	-14.0
2.1	Cash and cash equivalents	3,936,525	5.9	2,809,025	4.3	-28.6
2.2	Short-term financial lease receivables	126,630	0.2	228,818	0.3	80.7
2.3	Short-term financial assets	2,602,320	3.9	2,732,802	4.2	5.0
2.4	Other short-term receivables	376,680	0.6	243,430	0.6	-35.4
2.5	Other current assets and deferred tax assets	988,498	1.5	889,220	1.4	-10.0
LIABILITIES		66,270,193	100.0	65,829,243	100.0	-0.7
1	CAPITAL	8,364,361	13.9	8,549,043	13.0	2.2
1.1	Core capital	6,990,787	11.1	6,990,787	10.6	0.0
1.2	Reserves	40,151	0.1	40,151	0.1	0.0
1.3	Revaluation reserves	354	0.0	354	0.0	0.0
1.4	Net unrealised gains/losses	11,879	0.0	9,685	0.0	-18.5
1.5	Retained earnings	3,686,031	6.5	3,878,744	5.9	5.2
1.6	Loss	2,364,841	3.7	2,370,678	3.6	0.2
1.7	Purchased own shares and stakes	0	0.0	0	0.0	

Table 3 The comparative balance sheet of lessors (in RSD thousands)

Number	ITEM	31 12 2016		31 3 2017		% growth 31 03 17/ 31. 12 16
		Amount	%	Amount	%	
2	LONG-TERM PROVISIONING AND LIABILITIES	49,829,348	75.2	51,692,221	78.5	3.7
2.1	Long-term provisions	819,920	1.2	802,393	1.2	-2.1
2.2	Long-term liabilities	49,009,428	74.0	50,889,828	77.3	3.8
2.2.1	Long-term domestic loans	6,040,976	9.1	6,188,908	9.4	2.4
2.2.2.	Long-term foreign loans	42,943,758	64.8	44,700,920	67.9	4.1
2.2.3	Other long-term liabilities	24,694	0.0	0	0.0	-100.0
3	SHORT-TERM LIABILITIES	8,076,484	12.2	5,587,979	8.5	-30.8
3.1	Short-term financial liabilities	6,464,271	9.8	3,892,746	5.9	-39.8
3.1.1	Short-term domestic loans	6,398,679	9.7	3,788,401	5.8	-40.8
3.1.2	Short-term foreign loans	0	0.0	0	0.0	0.0
3.1.3	Liabilities under interest and other costs of financing	65,592	0.1	104,345	0.2	59.1
3.2	Financial lease liabilities	325,202	0.5	336,874	0.5	3.6
3.3	Other liabilities and deferred tax liabilities	1,287,011	1.9	1,358,359	2.1	5.5

Source: NBS.

2.2 Market share

For the purpose of monitoring the structure of the financial leasing market and the degree of competition among 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 by balance sheet assets

Ranking	Lessor	Balance sheet assets		Lessor	Balance sheet assets	
		(in RSD thousands)	Share		(in RSD thousands)	Share
1	Intesa Leasing d.o.o. Beograd	11,225,410	17.1%	9	VB Leasing d.o.o. Beograd	2,715,924 4.1%
2	Sogelease Srbija d.o.o. Beograd	10,222,506	15.5%	10	Heta Leasing d.o.o. Beograd	2,134,192 3.2%
3	Raiffeisen Leasing d.o.o. Beograd	8,053,953	12.2%	11	Lipaks Leasing d.o.o. Beograd	1,907,613 2.9%
4	UniCredit Leasing d.o.o. Beograd	7,887,315	12.0%	12	NLB Leasing, d.o.o. Beograd undergoing	644,200 1.0%

Table 4 – Market share of lessors by balance sheet assets

Ranking	Lessor	Balance sheet assets	Share	Lessor	Balance sheet assets	Share	
		(in RSD thousands)			(in RSD thousands)		
				liquidation			
5	S-Leasing d.o.o. Beograd	6,264,728	9.5%	13	Piraeus Leasing d.o.o. Beograd	622,495	0.9%
6	NBG Lizing d.o.o. Beograd	5,427,492	8.2%	14	Procredit Leasing d.o.o. Beograd	294,654	0.4%
7	CA Leasing Srbija d.o.o. Beograd	5,038,009	7.7%	15	Zastava Istrabenz Lizing d.o.o. Beograd	256,297	0.4%
8	Porsche Leasing SCG d.o.o. Beograd	2,915,403	4.4%	16	ERB Leasing a.d.Beograd	219,052	0.3%
TOTAL		65,829,243	100.0%				

Source: NBS.

The first four ranked lessors, making up over half of the market, retained their positions held at the end of the previous year.

Table 5 – Market share of lessors by financial lease receivables (portfolio)

Ranking	Lessor	Portfolio RSD (in thousands)	Share		Lessor	Portfolio RSD (in thousands)	Share
1	Sogelease Srbija d.o.o. Beograd	10,060,547	17.5%	9	VB Leasing d.o.o. Beograd	2,550,415	4.4%
2	Intesa Leasing d.o.o. Beograd	9,786,337	17.0%	10	Lipaks Leasing d.o.o. Beograd	1,012,817	1.8%
3	Raiffeisen Leasing d.o.o. Beograd	7,411,865	12.9%	11	Heta Leasing d.o.o. Beograd	859,492	1.5%
4	UniCredit Leasing d.o.o. Beograd	7,113,127	12.3%	12	Piraeus Leasing d.o.o. Beograd	451,705	0.8%
5	S-Leasing d.o.o. Beograd	5,536,593	9.6%	13	Zastava Istrabenz Lizing d.o.o. Beograd	179,815	0.3%
6	NBG Lizing d.o.o. Beograd	4,955,088	8.6%	14	NLB Leasing, d.o.o. Beograd undergoing liquidation	92,923	0.2%
7	CA Leasing d.o.o. Beograd	4,812,383	8.3%	15	Procredit Leasing d.o.o. Beograd	36,614	0.1%
8	Porsche Leasing SCG d.o.o. Beograd	2,764,909	4.8%	16	ERB Leasing a.d.Beograd	19,231	0.0%
TOTAL		57,643,871	100.0%				

Source: NBS.

Market share of lessors by portfolio changed insignificantly relative to the previous quarter.

Judging by the Herfindahl–Hirschman Index, which equalled 1,194.9 on 31 March 2017, the financial leasing market falls into the category of moderately concentrated markets.

2.3 Profit and loss account

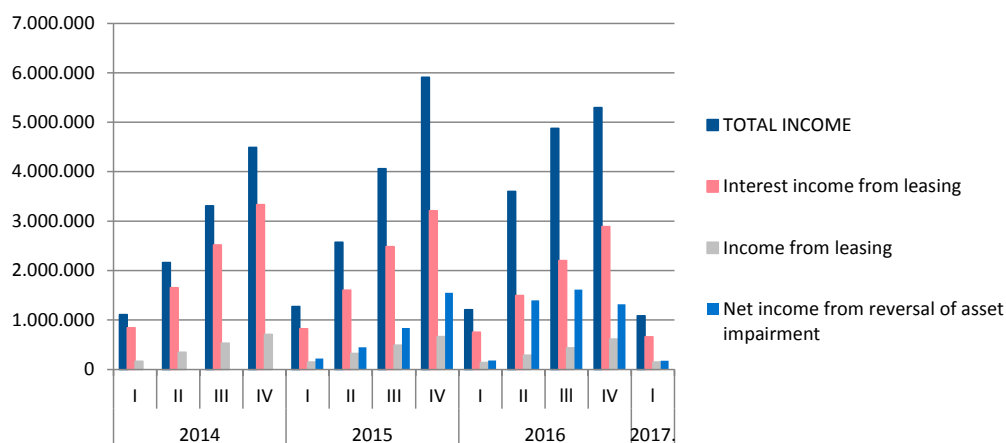
Total pre-tax profit of all lessors as at 31 March 2017 was positive, reaching RSD 378.7 mn. Of all lessors, two recorded a negative pre-tax result (RSD 9.9 mn), while others had a positive pre-tax result.

Profit of the financial leasing sector as at 31 March 2017 was insignificantly higher than in the first quarter of the last year when it stood at RSD 368,4 mn. Total income and gains as at 31 March 2017 decreased by 10.2% compared to 31 March 2016, while total expenses and losses increased by 15.9%.

The most significant category of income was interest income from leasing (as primary income of lessors), with the share of 61.0% in total income as at 31 March 2017, which indicates a slight decrease relative to the same period in 2016, when this share was 1.5%. Net income from impairment of assets had a 16.2% share in total income, followed by income from leasing (e.g. income from the performance of primary activities) – 13.7%, other gains and income (income from premiums, subsidies, grants, donations, income from the reversal of long-term provisions, etc.) – 5.0%, and net income from exchange rate gains and currency clause effects – 1.6%. The share of other categories of income in the structure of total income changed negligibly.

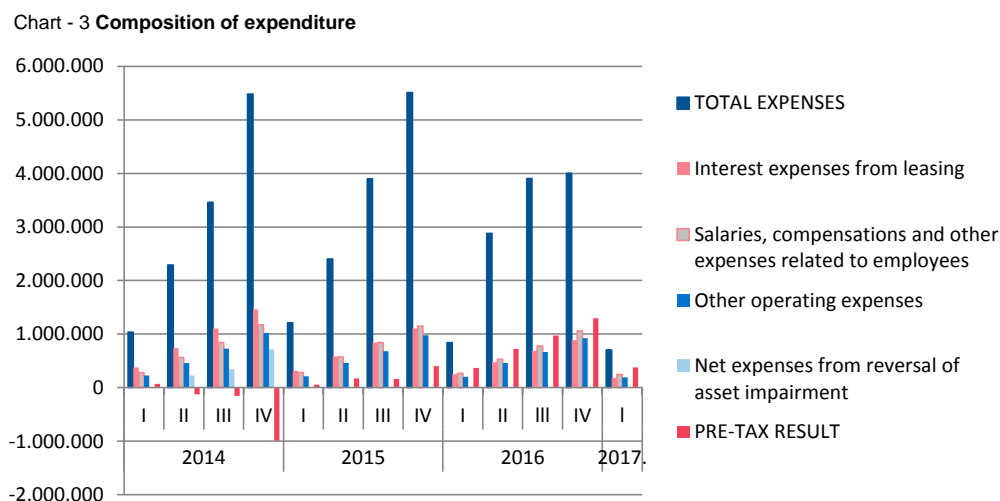
The structure of the most significant income is given in Chart 2 – Structure of income.

Chart - 2 Composition of revenue



The largest share in the structure of total expenses was held by: salaries, salary compensations, and other employee-related expenses (34.6%), lease interest expenses (25.6), financial leasing costs (7.5%), and depreciation and provisioning costs (3.0%).

The structure of the most significant expenses is given in Chart 3 – Structure of expenses.



The aggregate profit and loss account of all lessors in RSD thousands on 31 March 2016 and 31 March 2017 is given in Table 6.

Table 6 – **Aggregate profit and loss account of all lessors** (in RSD thousands)

No	ITEM	31/3/2016	% of tot. inc.	31/03/2017	% of tot. inc.	% of growth, 2016/2017
INCOME AND EXPENSES FROM REGULAR OPERATIONS						
OPERATING INCOME AND EXPENSES						
1	Interest income from leasing	755,118	62.5	661,681	61.0	-12.4
2	Interest expenses from leasing	249,575	20.7	180,951	16.7	-27.5
3	Income from leasing	139,183	11.5	148,409	13.7	6.6
4	Expenses from leasing	52,825	4.4	52,915	4.9	0.2
I.	BUSINESS RESULT	591,901	49.0	576,224	53.1	-2.6
OTHER INCOME AND EXPENSES						
5	Net income from other interest	10,610	0.9	15,597	1.4	11.9
6	Net expenses from other interest	0	0.0	0	0.0	-25.0
7	Net income from exchange rate differences and currency clause effects	34,850	2.9	17,311	1.6	-49.6
8	Net expenses from exchange rate differences and currency clause effects	0	0.0	0	0.0	-45.5

Table 6 – Aggregate profit and loss account of all lessors (in RSD thousands)

No	ITEM	31/3/2016	% of tot. inc.	31/03/2017	% of tot. inc.	% of growth, 2016/2017
9	Net income from share in income of related legal entities and joint investment	0	0.0	0	0.0	
10	Net expenses from share in losses of related legal entities and joint investment	0	0.0	0	0.0	
11	Net income from sale and lease	5,303	0.4	10,995	1.0	72.5
12	Net losses from sale and lease	0	0.0	0	0.0	-20.3
13	Salaries, salary compensations and other employee-related expenses	264,273	21.9	244,285	22.5	-7.6
14	Depreciation and provisioning	28,538	2.4	21,384	2.0	-25.1
15	Other operating expenses	203,691	16.9	190,224	17.5	-6.6
16	Net income from sale of intangible investment, property, plant, equipment and other assets	867	0.1	583	0.1	-14.2
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	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 value adjustment	181,967	15.1	175,758	16.2	3.5
21	Net expenses from asset value adjustment	0	0.0	0	0.0	
22	Other income and gains	79,524	6.6	53,972	5.0	-31.1
2.3	Other expenses and losses	40,112	3.3	15,896	1.5	-60.4
II	REGULAR OPERATING RESULT	368,408	30.5	378,651	34.9	2.7
24	NET GAIN FROM DISCONTINUED OPERATIONS	0	0.0	0	0.0	
25	NET LOSS FROM DISCONTINUED OPERATIONS	0	0.0	0	0.0	
	PRE-TAX RESULT	368,408	30.5	378,651	34.9	2.7
26	PROFIT TAX					
26.1	1 Tax expense of the period	21,742	1.8	22,343	2.1	2.8
26.2	2 Deferred tax expenses of the period	188	0.0	3,149	0.3	1,628.2
26.3	3 Deferred tax income of the period	0	0.0	44	0.0	
27	Paid personal income to employer	0	0.0	0	0.0	-
IV	NET RESULT	346,478	28.7	353,103	32.6	1.9
V.	TOTAL INCOME AND PROFIT	1,207,422	100.0	1,084,306	100.0	-10.2
VI.	TOTAL EXPENSES AND LOSSES	839,014	69.5	705,655	65.1	-15.9

Source: NBS.

3 Structure of investment and asset quality

3.1 Structure of financial lease investment

In Q1 2017, as years before, the bulk of share in the lease investment structure (84%) went to corporate financial leasing outside the financial sector.

At end-Q1 2017, financing of freight vehicles, minibuses, and buses continued to account for the largest share of financial lease with 41.0%, as well as passenger vehicles with 31.9%. As in the previous periods, the share of other lease assets continued to account for close to or below 10.0%.

In this quarter, the most significant share in total financial lease investment was that of transport, warehousing, information and communications – 35.3%. Trade also accounted for a significant share with 15.4%, as did manufacturing, mining and water supply with 14.7%.

3.2 Asset quality

The value of financial lease receivables as at 31 March 2017 was RSD 57.6 bn, which represents a 1.3% increase relative to end-2016 (RSD 56.9 bn).

At end Q1 gross receivables past due equalled RSD 6.1 bn, making up 9.4% of gross financial lease receivables. Relative to end-2016, these receivables recorded growth (RSD 5.8 bn). It can be noticed that the amount of receivables past due relative to the end-2015 significantly decreased (RSD 7.4 bn).

The net carrying value of past due receivables was RSD 861.1 bn, with a share in the portfolio of 1.5%. The net carrying value of past due receivables compared to the previous quarter (end 2016) was smaller by 9.5%, when these receivables amounted to RSD 1.5 bn, down by 42.6%.

Net receivables past due were relatively low (10.1%) in relation to the capital of the financial leasing sector as at 31 March 2017.

At end-Q1 2017, receivables past due more than 90 days made up the largest share of total receivables past due. These receivables amounted to RSD 5.1 bn as at 31 March 2017. The share of these receivables in total financial lease gross receivables stood at 7.9%. The net carrying value of receivables past due more than 90 days made up 0.6% of the total net portfolio, as in the previous quarter, but decreasing from end-2015 (1.4%).

Value adjustments of receivables due and not due came at RSD 7.0 bn as at 31 March 2017, while their share in total gross financial lease receivables was 10.9%, which is closely the same as at the end of the previous quarter (10.7%). However, that

is significantly less than at end-2015 when value adjustments amounted to RSD 9.7 bn, with the share of 15.5% in total gross receivables.

In Q1 2017 the amount of financial lessors' returned lease assets stood at RSD 184.7 mn, which, combined with the assets carried over from previous years, reached RSD 484.2 mn or 0.8% of portfolio. Of the total value of returned lease assets, lessors released 28.2%, sold 17.1% while 45.0% remained idle. As at 31 March 2017, net carrying value of returned lease assets amounted to RSD 217.7 mn, or 0.4% of portfolio.

4 Performance indicators

At end-Q1 2017, ROA and ROE recorded a decrease relative to the end of the same quarter in 2016. ROA fell relative to 31 March 2016 from 2.46% to 2.29%, while ROE stood at 17.90% at end-Q1 2017, negligibly less than in the same quarter in 2016 (18.48%).

Net interest margin was 3.47% (at end-Q1 2016 it amounted to 3.90%). The average lending rate fell slightly at end-Q1 2017, to 4.84% (from 5.95% at end Q1-2016), as did the average deposit rate, equalling 1.42% at end-Q1 2017 (2.16% at end-Q1 2016).