NATIONAL BANK OF SERBIA
Department for Economic Research and Statistics

TRENDS IN LENDING

First Quarter Report 2021

Belgrade, May 2021

Introductory note

Trends in Lending is an in-depth analysis of the latest trends in lending, which aims to ensure better understanding of the conditions prevailing in the domestic lending market. It looks into lending developments, cost of borrowing by households and corporates and lending market conditions, by examining factors behind loan supply and demand.

Credit aggregates, as a quantified expression of movements in the lending market, are calculated based on banking sector balance sheet statistics as a source of data on the balance of domestic banks' loan receivables. Given the relatively high share of foreign currency-indexed loans in loan portfolios, the increment and growth rates are calculated excluding the effect of changes in the dinar exchange rate against other currencies in the loan portfolio.

The report also draws on the results of the bank lending survey conducted by the National Bank of Serbia since early 2014. Participation in the survey is voluntary. This survey has greatly improved the understanding of developments in the domestic lending market, allowing insight into bankers' perceptions of actual and expected changes with regard to loan supply and private sector loan demand.

The report also relies on the results of the survey developed by the European Investment Bank in the context of the Vienna Initiative 2 to monitor deleveraging by cross-border banking groups and the resultant constraints on lending activity. This survey, conducted since October 2012 on a semi-annual basis, monitors subsidiaries of international banking groups in Central, Eastern and South-Eastern Europe, focusing on their strategies, market conditions and expectations. The purpose of the survey is to observe the effects of movement in supply and demand on lending activity, and to gauge the impact of domestic and international factors on supply and demand conditions. Ten Serbian banks participate in this survey, their assets making up around 50% of total assets of the Serbian banking sector.

ABBREVIATIONS

GDP – gross domestic product
mn – million
bn – billion
y-o-y – year-on-year
NPL – non-performing loan
pp – percentage point
Q – quarter

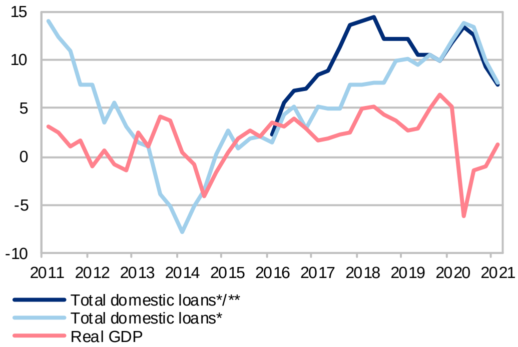
Other generally accepted abbreviations are not cited.

Contents

Overview

Lending activity maintained its upward trend at the start of 2021, propped by the NBS's past monetary policy easing, approval of the Guarantee Scheme loans to micro, small and medium-sized enterprises and entrepreneurs, measures aimed at stimulating sustainable household lending and the still low interest rates in the euro area money market. As expected, due to the high base effect from the beginning of 2020 and higher loan amounts falling due after the lifting of the second moratorium, **y-o-y growth in total domestic lending slowed down to an average of 8.7% in Q1.** The slowdown was recorded with corporate loans, while y-o-y growth in household loans was similar as at end-2020. **Slower y-o-y growth in lending was also present in the majority of countries in the region, with Serbia's y-o-y lending growth still being among the highest.**

Y-o-y growth of domestic loans slowed down in Q1 under the influence of last year's high base
(y-o-y growth rates, in %)

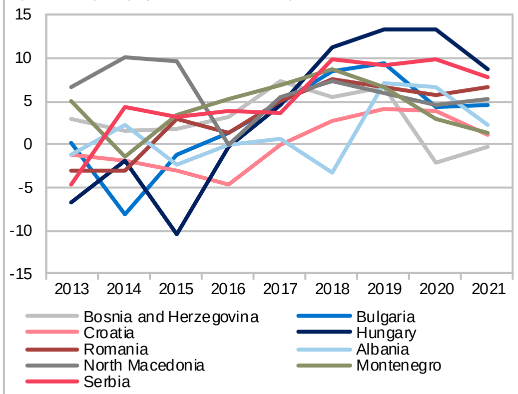


Sources: NBS and SORS.
* Excluding the exchange rate effect.
** Excluding the effect of NPL write-off and sale since early 2016.

Total domestic receivables (which, in addition to receivables under loans, include receivables under securities, interests and charges, and other receivables) also decelerated, to an average of 9.7% y-o-y in Q1.

Excluding the exchange rate effect, **corporate loans went up by RSD 8.4 bn** during Q1, **driven by investment loans**. **Sector-wise,** the bulk of loans in Q1 were channelled to transport, accommodation and communication companies, and to a lesser degree to those in the trade and construction sectors.

Y-o-y loan growth slowed down in the majority of countries in the region during Q1
(nominal y-o-y growth rates, in %)



Sources: Websites of central banks and NBS calculation.

Growth in dinar working capital loans was facilitated by the disbursement of RSD 24.9 bn (EUR 212.0 mn) worth of loans under the Guarantee Scheme during Q1, whereby the amount of total realised loans since the introduction of the Scheme came close to RSD 200 bn (EUR 1.7 bn). We expect a positive contribution on this account in the coming period as well, since the Guarantee Scheme has been prolonged until end-July 2022 and its volume increased to EUR 2.5 bn.[1] In addition, "the Second Guarantee Scheme"[2] has been established, intended for the most vulnerable companies. This way, banks will be able to extend EUR 500 mn worth of loans by end-July 2022.

Driven by housing loans, which accounted for almost three-quarters of the increase in Q1,

[1] Law on Establishing a Guarantee Scheme as a Measure of Support to the Economy for Mitigating the Effects of the COVID-19 Pandemic Caused by the SARS-CoV-2 Virus (RS Official Gazette, Nos 153/2020 and 40/2021).

[2] Law on Establishing the Second Guarantee Scheme as a Measure of Additional Support to the Economy due to the Prolonged Negative Impact of the COVID-19 Pandemic Caused by the SARS-CoV-2 Virus (RS Official Gazette, No 40/2021).

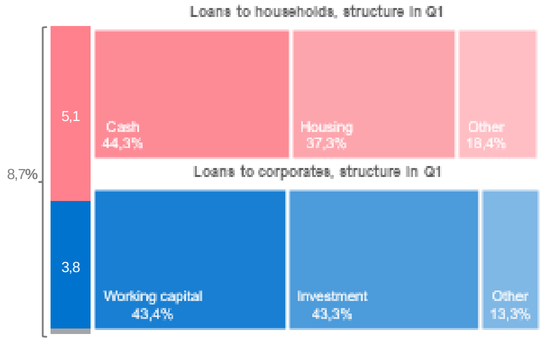
household loans, excluding the exchange rate effect, **rose by RSD 22.5 bn**. The good performance of household lending in Q1 is also attributable to the measures which the NBS adopted during the past year (lowering the minimum level of completion of a building for housing loans and extending the repayment period by five years, increasing the maturity of cash loans, refinancing loans with a six-month grace period, etc.) and which will continue to be applied in 2021.

Borrowing conditions in the domestic market remained favourable in Q1. Interest rates on new dinar loans to corporates dropped to a new low (2.2%) in January, when they were even lower than the rates on euro-indexed loans. They posted growth for the following two months, but still remained lower than at end-2020 (3.1% in March). Households also continued to borrow at favourable terms, with interest rates on housing loans touching their new lowest level in Q1 (2.57% in March).

In terms of outstanding amounts, **the dinarisation of corporate and household receivables reached a new highest level in March. The share of dinar receivables in total corporate and household receivables in March equalled 37.9%**, up by 0.6 pp from end-2020. Of this, the degree of dinarisation of corporate receivables rose by 1.3 pp in Q1 to 22.3% in March thanks to the rise in dinar lending, which is attributable to the NBS's monetary policy easing and financing provided to the corporate sector within the Guarantee Scheme. On the other hand, the share of dinar in total household receivables edged down by 0.5 pp in Q1 to 55.4% in March, which is mostly due to the fact that housing loans, predominantly disbursed in euros, rose higher than cash loans (predominantly approved in dinars).

The share of NPLs in total loans is still below the pre-crisis level and **equalled 3.9% in March**, indicating that the measures taken by the NBS and the Government were timely and prevented a major negative effect on the economy and households and, in turn, on financial stability. Relative to end-2020, this share edged up slightly (by 0.2 pp), while in comparison with July 2015, i.e. just before the start of implementation of the NPL Resolution Strategy, it is 18.5 pp lower. The results of the survey on expectations of market participants indicate that the banking sector expects[3] the share of NPLs to decrease to 3.0% at end-2021.

Household lending gave a higher contribution to y-o-y growth in total loans in Q1
(in pp, average for Q1 2021)



[3] As of February 2021, when this question was included in the survey.

I. Corporate sector

1. Corporate loans

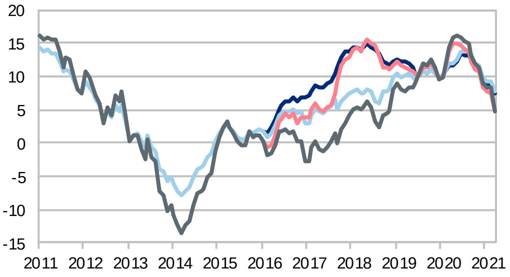
Y-o-y growth in corporate loans slowed down during Q1 due to the high base from the previous year and higher loan amounts falling due after the lifting of the second moratorium and equalled 4.9% in March (9.1% in December 2020). In nominal terms, the stock of corporate loans equalled RSD 1,367.8 bn in March, while their share in the annual GDP[4] (24.8%) was almost unchanged relative to end-2020.

Excluding the exchange rate effect, **corporate loans increased by RSD 8.4 bn or 0.6% in Q1.** Such **growth was driven by dinar lending**, facilitated by the NBS's monetary policy easing and the disbursement of loans under favourable conditions within the Guarantee Scheme. The maturity of corporate loans was slightly trimmed in Q1, therefore long-term loans accounted for 86.0% of total corporate loans in March, which is 0.9 pp lower than at end-2020.

By purpose, the highest increase in Q1 was recorded by investment loans (RSD 8.0 bn), though there was a rise in borrowing under working capital and liquidity loans (RSD 2.8 bn) and current account overdrafts (RSD 4.1 bn). At the same time, import and other non-categorised loans posted a decrease, while borrowing under export loans remained unchanged. Liquidity and working capital loans are still dominant in the stock of corporate loans, accounting for 43.6% in March, and are followed by investment loans, whose share edged up 0.3 pp to 43.3% in Q1. During Q1, companies in the **transport, accommodation and communication** sector borrowed the most, and those in the **trade and construction sector** to a lesser degree, while borrowing in other sectors declined. **By company size**, loans disbursed to micro, small and medium-sized enterprises made up 68% of total corporate loans in March and their y-o-y growth came at 6.8%.

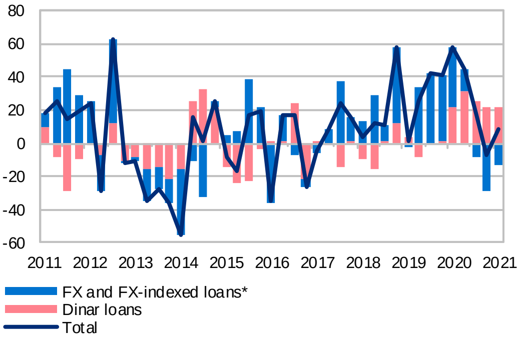
A significant increase in working capital loans in Q1 pertained to the **loans under the Guarantee Scheme**, which are intended for the corporate segment most vulnerable segment to this crisis – micro, small and medium-sized enterprises and entrepreneurs, which are also an important generator of GDP and jobs. In Q1, a total of RSD 24.9 bn (EUR 212.0 mn) worth of

Y-o-y growth in total loans in Q1 is dictated by a slowdown in y-o-y growth in corporate loans
(y-o-y growth rates at the programme exchange rate, in %)



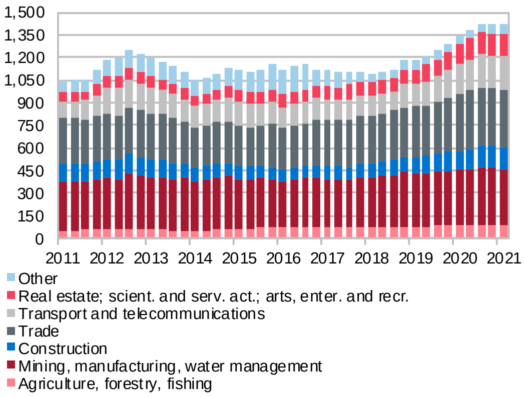
Source: NBS.
* Excluding the effect of NPL write-off and sale since early 2016.

Thanks to the Guarantee Scheme, dinar corporate loans continued up in Q1 as well
(increase, in RSD bn)



Source: NBS.
* Excluding the exchange rate effect.

The bulk of corporate receivables are loans to manufacuring and trade
(stock, in RSD bn)



Source: NBS.

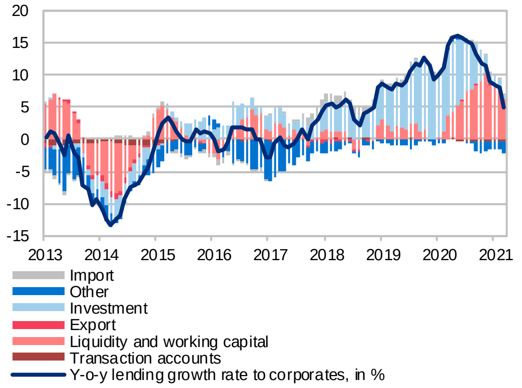
[4] GDP in the past four quarters.

loans was approved under the Guarantee Scheme. Thus, the amount of total realised loans since the start of the programme has come close to RSD 200 bn (EUR 1.7 bn), with 61.2% of loans approved in dinars. This is conducive to an increase in the degree of dinarisation and thereby the efficiency of monetary policy and additional strengthening of financial system stability. Given that 86.8% of total approved loans are new loans, going forward we may expect them to yield a positive impact on economic activity. These loans were mostly used by small enterprises (44.8%), followed by medium-sized (31.2%) and micro-enterprises (24.1%). End-April amendments to the Law on the Guarantee Scheme extended the Scheme by another year, until end-July 2022, and increased its volume by EUR 500 mn to a total of EUR 2.5 bn. Also, another Guarantee Scheme was established ("the Second Guarantee Scheme"), aimed at supporting companies in sectors that have been most affected by the crisis (transport, catering, tourist agencies and hotels in towns) and companies which in 2020 disclosed a fall in business revenues greater than 20%. This Scheme will allow banks to disburse EUR 500 mn in loans by end-July 2022.

The volume of new corporate loans in Q1 equalled RSD 204.1 bn, which is 5.1% lower than in the same period last year. Liquidity and working capital loans accounted for 53.0% of new corporate loans in Q1, with almost 60% of these loans being used by micro, small and medium-sized enterprises. Investment loans made up 29.2% of new corporate loans in Q1, with almost two thirds of approved loans being absorbed by micro, small and medium-sized enterprises.

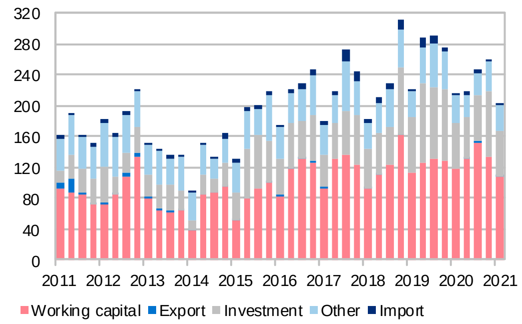
Owing to the rise in dinar lending, **the dinarisation of the stock of corporate receivables** increased by another 1.3 pp during Q1 **and reached 22.3% in March**, its highest level since May 2015. This was facilitated by the NBS's monetary policy easing and dinar corporate financing within the Guarantee Scheme under favourable terms.[5] The share of euro-indexed and euro receivables decreased in Q1 by 1.3 pp to 77.4% in March, while the share of dollar receivables (0.2%) was unchanged.

The pandemic led to working capital loans giving the biggest contribution to y-o-y growth in corporate lending
(in pp, excluding the exchange rate effect)



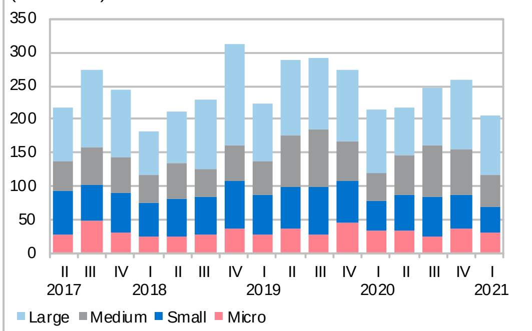
Source: NBS.

Working capital and investment loans remained dominant in Q1
(new loans, in RSD bn)



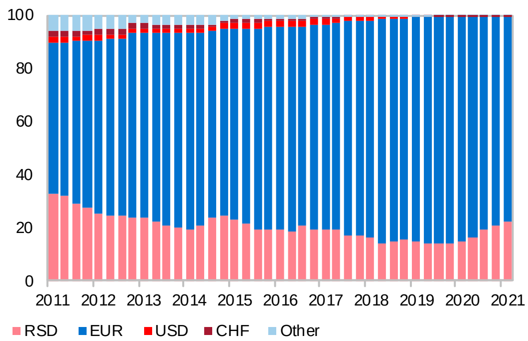
Source: NBS.

Loans to micro, small and medium-sized enterprise made up almost three-fifths of new loans in Q1
(in RSD bn)



Source: NBS.

Guarantee Scheme contributed to further growth in dinarisation of corporate receivables in Q1
(currency structure, in %)



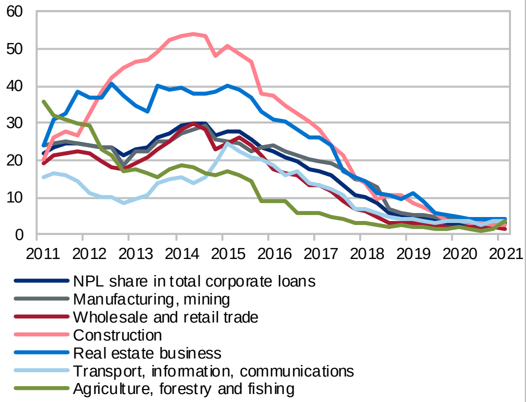
Source: NBS.

[5] *https://nbs.rs/en/scripts/showcontent/index.html?id=15656&konverzija=no*

The NPL share below the pre-crisis level and high capitalisation of the banking sector confirm that the quality of bank assets has been preserved during the pandemic.

The share of NPLs[6] in total loans to corporates equalled 3.1% in March, the same as at end-2020, while relative to July 2015, i.e. just before the start of the implementation of the NPL Resolution Strategy, it is 21.9 pp lower. The share of NPLs in total corporate loans also measured 3.1% in March and was unchanged from end-2020. Sector-wise, relative to end-2020, this indicator decreased in the manufacturing industry and trade, and increased in agriculture, while in other sectors it remained largely unchanged. Relative to the beginning of the implementation of the Strategy, the most pronounced decrease was recorded in construction, real estate business and trade. NPL coverage remains high – allowances for impairment of total loans stood at 91.2% of NPLs in March, while allowances for impairment of NPLs equalled 58.8% of NPLs.

NPL share continued to move close to the minimum in almost all sectors
(gross principle, in %)



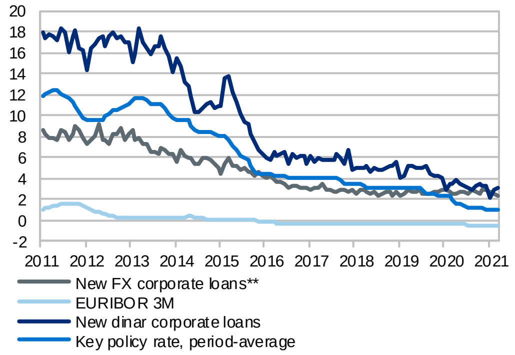
Source: NBS.

The capital adequacy ratio equalled 22.3% at end-March, significantly above the prescribed minimum of 8%. Since the introduction of Basel III standard[7] into the domestic regulatory framework, this indicator went up.

2. Cost of corporate borrowing

The cost of corporate borrowing remained favourable in Q1, with dinar interest rates dropping to a new low in January and becoming lower than rates on euro-indexed loans. Such movements are the result of the NBS's past monetary policy easing and the disbursement of loans within the Guarantee Scheme, under favourable terms, which was facilitated by the NBS decision from July 2020 to pay a higher remuneration rate to banks (0.5 pp higher than the standard rate which currently equals 0.10%) that approve dinar loans at a rate at least 0.5 pp lower than the maximum rate envisaged by the law on the Guarantee Scheme (1M BELIBOR + 2.5 pp).

Interest rates on dinar loans were lower than rates on FX loans in January*
(weighted average values, per annum, in %)



Sources: NBS and European Banking Federation.
* Excluding revolving loans, current account overdrafts and credit card debt.
** Euro and euro-indexed.

The costs of new dinar lending to corporates in Q1 2021 were more favourable than in Q4 2020 – **the**

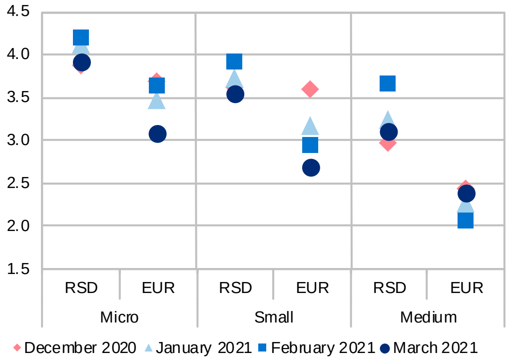
[6] Important factors contributing to the sharp fall in NPLs from 2016 onwards were the successful implementation of the NPL Resolution Strategy and implementation of the Decision on the Accounting Write-Off of Bank Balance Sheet Assets. In accordance with the Strategy, the NBS adopted the Action Plan (https://nbs.rs/en/scripts/showcontent/index.html?id=8678), aimed at strengthening banks' capacity for NPL resolution and contributing to the development of the NPL market. Activities in the Action Plan have been fully implemented, in some cases even before the deadline.

[7] Basel III regulatory framework is applied as of 30 June 2017, when application of the Decision on Capital Adequacy of Banks (RS Official Gazette, Nos 103/2016, 103/2018, 88/2019, 67/2020, 98/2020 and 137/2020) began, thus introducing this standard into local regulations.

weighted average interest rate on new dinar loans to corporates was trimmed from 3.3% in Q4 2020 to 2.8% in Q1 2021. Observed by month, interest rates on new dinar loans to corporates **declined to a new lowest level in January (2.2%)**, only to post growth over the following two months (to 3.1% in March), though they still remained lower than at end-2020 (3.2% in December). By purpose, the Q1 decrease in the average rate on dinar loans was a result of the decline in the average rate on working capital loans (by 0.5 pp to 2.8%), as well as in rates on other non-categorised loans (by 0.4 pp to 2.7%). At the same time, the average cost of dinar investment loans (3.2%) was maintained at the level from Q4 2020, which is its lowest level on record. By company size, Q1 saw a decrease in the average interest rate on loans to large enterprises (by 1.0 pp to 2.1%), while rates on loans to micro (4.0%), small (3.7%) and medium-sized enterprises (3.2%) rose by 0.2 pp each.

The weighted average rate on new euro and euro-indexed corporate loans declined by 0.3 pp from Q4 2020, to 2.55% in Q1 2021. At the same time, the average rates on working capital loans (2.2%) and investment loans (3.0%) edged down by 0.3 pp each, and rates on import loans (2.1%) and other non-categorised euro-indexed loans (2.4%) by 0.1 pp each. In terms of size, during Q1 2021 enterprises of all sizes borrowed at lower rates on average than in Q4 2020 – micro-enterprises at 3.4%, small at 2.9%, medium-sized at 2.3% and large enterprises at 2.2%.

Cost of borrowing for micro, small and medium-sized enterprises remained favourable in Q1
(weighted average values, p.a., in %)

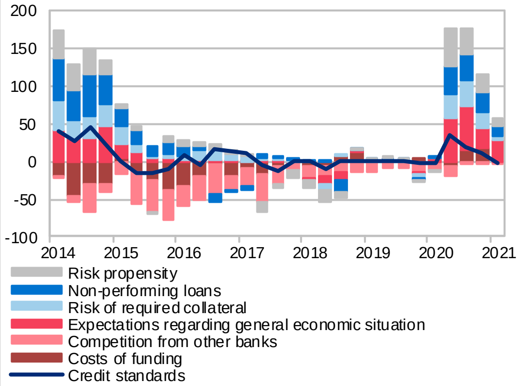


Source: NBS.

3. Assessment of loan supply and demand – based on the results of bank lending surveys

The results of the April NBS Bank Lending Survey show that for the first time since the outbreak of the coronavirus pandemic, **banks in Q1 eased their corporate credit standards.** This referred to dinar loans somewhat more than to FX-indexed ones, and to small and medium-sized enterprises rather than large ones, which is partly the effect of the NBS's monetary policy easing and of loan approval within the Guarantee Scheme. Banks expect standards to be eased further in Q2.

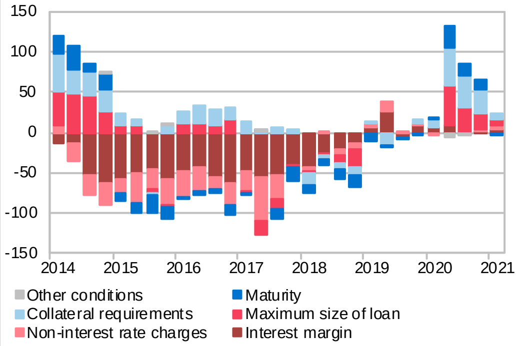
In Q1, corporate credit standards were eased for the first time since the outbreak of the crisis
(in net %)



Source: NBS.
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

According to survey results, in Q1 banks lowered the maximum loan amount and increased fees and commissions for all categories of enterprises. The conditions pertaining to loan margins and collateral requirements were eased for small and medium-sized enterprises, but tightened for large ones.

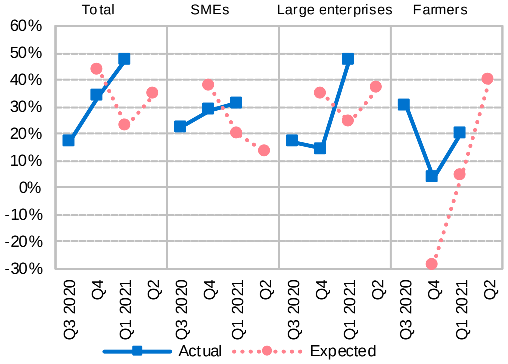
Credit conditions were tightened in Q1 too, though less than before
(in net %)



Source: NBS.
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

Corporate loan demand continued up in Q1, even more than had been anticipated in the January survey. According to banks, the main driver of the rising demand was the need to ensure working capital financing and debt restructuring, while capital investments again became an important source of demand growth. Conversely, increased use of own sources of financing and loans from non-banking institutions (Development Fund) were the reasons behind lower loan demand. Further growth in loan demand is anticipated in Q2 as well.

Growth in loan demand in Q1 exceeded expectations from the January survey, and further growth is expected in Q2
(in net percentage)



Source: NBS.
* Positive value indicates an increase in demand, and negative value indicates a decrease.

II. Household sector

1. Household loans

Owing to good realisation during Q1, **y-o-y growth in household loans in March (11.5%) was similar as in December 2020.** In nominal terms, the stock of household loans in March stood at RSD 1,254.7 bn, making up around 47% of banks' loan receivables from the non-monetary sector and 22.8% of the annual GDP.[8]

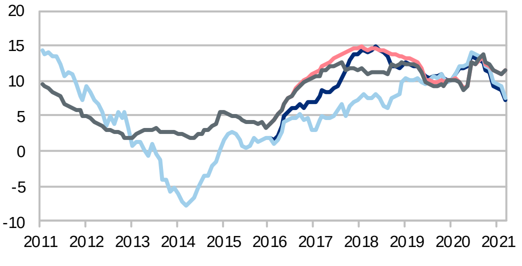
In the course of Q1, excluding the exchange rate effect, **household loans rose by RSD 22.5 bn or 1.8%.** This growth was driven by housing loans, which accounted for almost three-quarters of the rise in household loans in Q1. Cash loans also posted growth (by RSD 8.0 bn), as did current account overdrafts (by RSD 1.4 bn), while other non-categorised loans declined (by RSD 4.4 bn). The dominant category of household loans in March were cash loans (44.3%), whose share edged down slightly from end-2020, while the share of housing loans went up to 37.4% (from 36.8% in December 2020).

Good performance of household loans in Q1 was also facilitated by the measures which the NBS adopted over the past year, and which will be in force during 2021. Banks are thus enabled to extend the repayment term for housing loans by five years, the down payment for the purchase of the first residential real estate has been trimmed from 20% to 10%, and the degree of completion of a building that can be purchased by banks' housing loans has also been lowered. Cash and other loans can be approved for longer terms, up to eight years, and borrowers unable to settle their obligations regularly due to the pandemic are now able to reschedule and refinance their loans, and have a six-month grace period granted as well.

The volume of new household loans in Q1 equalled RSD 126.2 bn, which is 22.1% higher than in Q1 2020. Cash loans, accounting for 58.5% of new loans in Q1, were the dominant category. Housing loans are next, with the share of 25.3%, with the amount of new loans approved in Q1 (RSD 31.9 bn) 62.4% higher than in the same period last year. Favourable borrowing conditions and rise in the disposable income, with positive trends in the real estate market

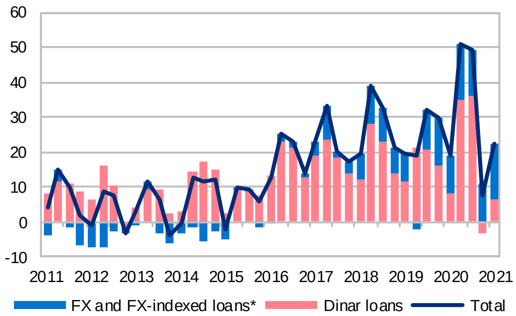
[8] GDP in the past four quarters.

Household lending posted high y-o-y growth in Q1 as well
(y-o-y growth rates at the programme exchange rate, in %)



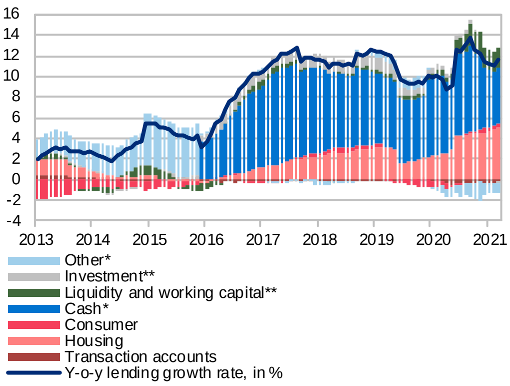
Source: NBS.
* Excluding the effect of NPL write-off and sale since early 2016.

Household lending growth in Q1 remained driven by euro-indexed housing loans
(increase, in RSD bn)



Source: NBS.
* Excluding the exchange rate effect.

Cash and housing loans again contributed the most to y-o-y growth in household lending in Q1
(in pp, excluding the exchange rate effect)



Source: NBS.
* Until December 2015, the contribution of cash loans is shown within the contribution of other loans.
** Loans extended to entrepreneurs.

and continued increase in the number of completed flats from 2016 onwards, contributed to the rising demand of households for housing loans. Other non-categorised loans made up 13.6% of new household loans, of which a significant part are loans to entrepreneurs under the Guarantee Scheme.

Dinarisation of household receivables[9] edged down 0.5 pp during Q1, to 55.4% in March, due to the FX-indexed receivables rising faster than the dinar ones, which is mostly attributable to housing loans posting higher growth than cash loans. At the same time, the share of euro receivables at end-Q1 rose to 44.4% (from 43.8% in December 2020), while the share of receivables in Swiss francs (0.2%) remained unchanged.

The share of NPLs in total household loans in March equalled 4.1%,[10] **up by 0.4 pp from end-2020**. Thanks to the measures introduced by the NBS and the Government, the negative effects of the pandemic had no major impact on citizens' lending capacity. Relative to the period immediately before the adoption of the NPL Resolution Strategy, this share is 7.2 pp lower. In terms of purpose, the share of NPLs during Q1 was unchanged for housing loans and lower for other non-categorised loans, while for other loan categories it increased, mostly by 0.4 pp for each category.

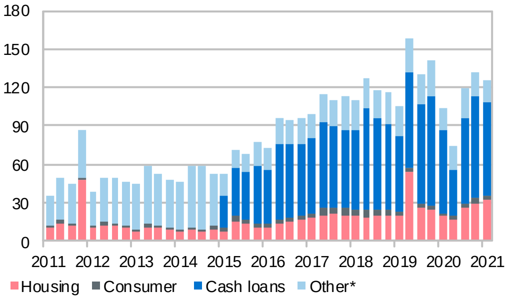
2. Cost of household borrowing

Households continued to borrow under favourable conditions in Q1, thus facilitating the continued growth of lending to the household sector.

The weighted average rate on new dinar loans to households in Q1 2021 equalled 8.7%, up by 0.1 pp from Q4 2020, with the average rate on the dominant category – dinar cash loans – unchanged (9.1%). Interest rates on other non-categorised loans went up 0.75 pp to 6.7%, while rates on housing loans dipped by 0.75 pp to 4.4%, and rates on consumer loans edged down 0.3 pp to 2.4%.

In Q1 2021, the weighted average rate on new euro-indexed loans to households equalled 3.2%, down by 0.1 pp q-o-q. This dip was dictated by the reduction in average interest rates on housing loans (2.6%) and other non-categorised loans (5.35%), by 0.1 pp each. Observed by month, interest rate on housing loans reached its lowest level in March

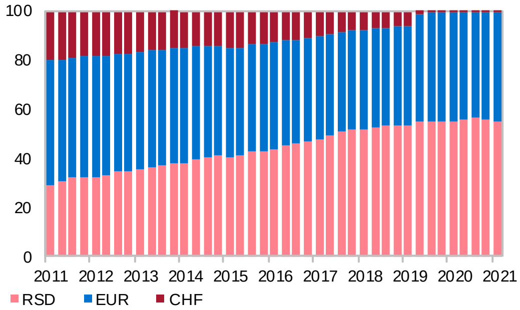
The bulk of new loans in Q1 were cash loans, and the amount of housing loans continued to rise
(new loans, in RSD bn)



Source. NBS.

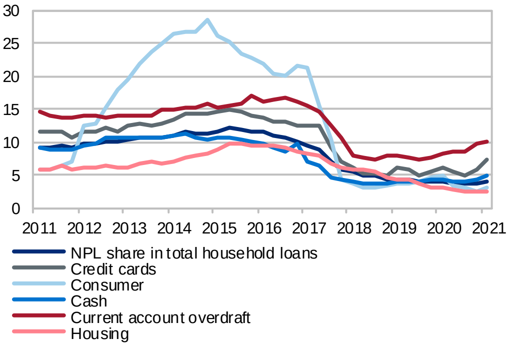
* Until December 2014, the 'other loans' category implied cash and other loans together.

Dinarisation of household receivables is above 55% despite an increase in FX housing loans
(currency structure, in %)



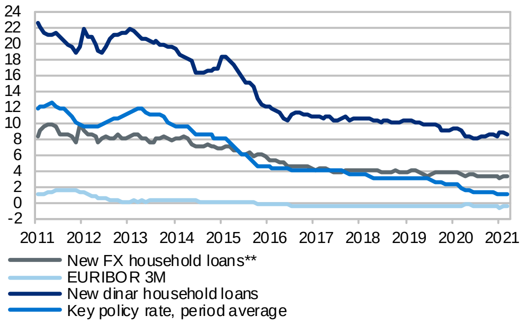
Source: NBS.

At end-Q1, the NPL share remains unchanged for housing and other loans, and slightly increased for other loan categories
(gross principle, in %)



Source: NBS.

Average cost of dinar and FX loans was close to the minimum in Q1*
(weighted average values, per annum, in %)



Sources: NBS and European Banking Federation.

* Excluding revolving loans, current account overdrafts and credit card debt.

** Euro and euro-indexed.

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[9] Including non-profit institutions and entrepreneurs.

[10] Including entrepreneurs and private households, the share also equalled 4.1%.

(2.57%). In contrast, the average interest rate on consumer loans (4.6%) remained unchanged, while the rate on the least dominant, cash loans in euros, rose 0.5 pp to 3.4%.

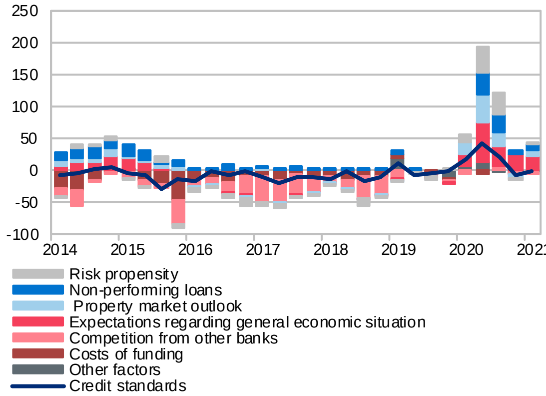
3. Assessment of loan supply and demand – based on the results of bank lending surveys

The results of the NBS's April Bank Lending Survey indicate that, though banks voiced their expectations as to the tightening of credit standards in the January survey, **household credit standards were not changed during Q1.** Also, increased risk perception in conditions of the still present uncertainty as to the future course of the pandemic at the global level acted towards the tightening of standards, while competition in the banking sector worked in the opposite direction. Banks expect standards to be slightly eased in Q2, mostly under the impact of the more favourable outlook in the real estate market and increased risk tolerance, which may be associated with the anticipated progress in vaccine rollout across the globe.

In Q1 banks trimmed their interest rate margins and fees and commissions for loan approval. Collateral requirements were also eased, while loan maturity was shortened.

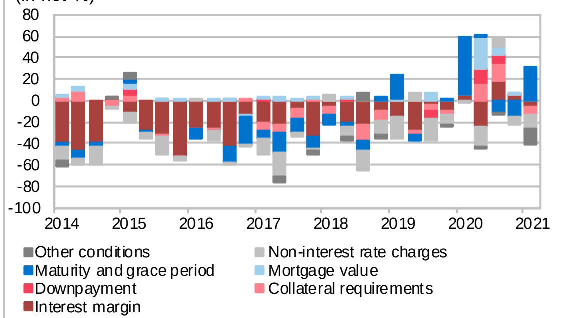
In accordance with banks' expectations, **household loan demand continued up in Q1**, mainly directed at euro-indexed housing loans, and to a lesser degree to dinar cash and refinancing loans. Banks cited real estate purchase and debt refinancing as the leading factors of growth in household demand in Q1, noting that they expect **the same factors to affect further demand growth in Q2 as well**.

Household credit standards were not changed in Q1
(in net %)



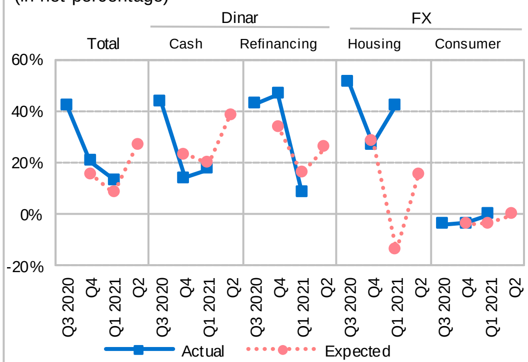
Source: NBS.
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

Price conditions for loans and collateral requirements were eased in Q1
(in net %)



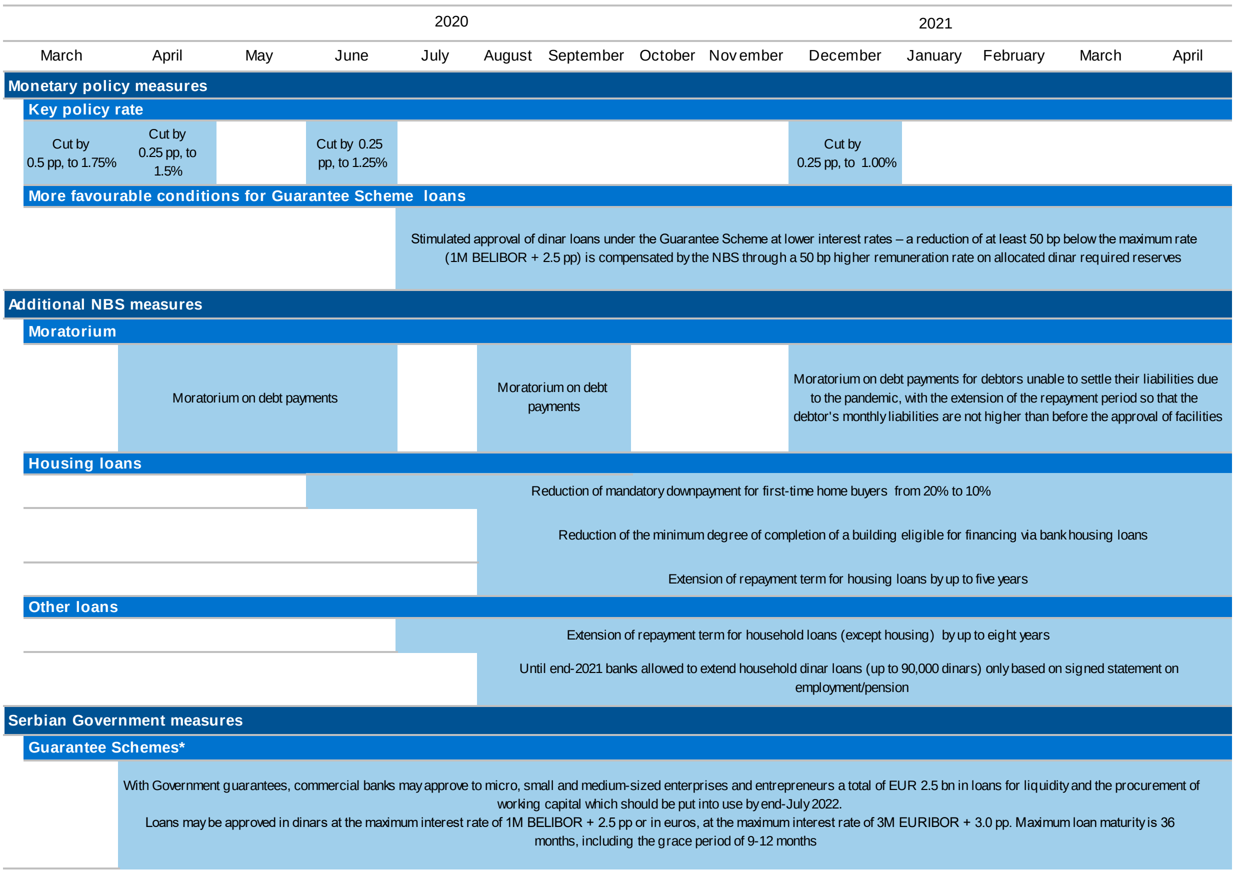
Source: NBS.
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

Rise in household loan demand was higher than expected in the January survey
(in net percentage)



Source: NBS.
* Positive value indicates an increase in demand, and negative value indicates a decrease.

Measures of the NBS and the Serbian Government aimed at supporting lending activity in conditions of the COVID-19 pandemic



* At end-April 2021, the law on the introduction of another, the so-called **Second Guarantee Scheme**, was introduced.
Within this Scheme, commercial banks, with Government guarantees, may approve up to EUR 500 mn in liquidity and working capital loans to enterprises in vulnerable sectors (transport, catering, tourist agencies and hotels in towns), as well as enterprises that in 2020 had a fall in business revenues higher than 20%. These loans should be released by end-July 2022.
The loans may be approved in dinars, at a maximum interest rate of 1M/3M BELIBOR + 2.75 pp, or in euros, at the maximum interest rate of 3M EURIBOR + 4.0 pp. Maximum loan maturity is 60 months, including a grace period of 18 to 24 months.

Source: NBS.

Methodological notes

- Loans imply bank receivables under the loan principal.
- Receivables imply receivables under loans, interests and charges, paid deposits, securities and shares of companies.
- All types of receivables are expressed according to the gross principle, i.e. not reduced by allowances for impairment.
- Dinar receivables are receivables extended in dinars without an FX-clause. The FX clause implies a currency clause that defines hedging against changes in the dinar exchange rate.
- When excluding the exchange rate effect, the calculation is based on the original currency composition and the exchange rate of the dinar against the euro, the US dollar and the Swiss franc as at 30 September 2014.
- New business includes all financial arrangements (credits and deposits) the terms of which are agreed for the first time during the reporting month, as well as all existing contracts the terms of which were re-agreed (through annexes), with the active participation of the client.
- The sectoral classification of monetary statistics is used. The corporate sector includes public enterprises, companies and the non-financial sector in bankruptcy, while the household sector includes citizens, entrepreneurs, private households with employed persons and registered farmers. By way of exception:
  - with newly-approved loans, the household sector includes non-profit institutions serving households (in accordance with the ECB methodology);
  - with non-performing loans, the sectors are presented separately, but are aggregated for the sake of comparison with the monetary statistics data.
- The term non-performing loans implies the stock of the total outstanding debt under individual loans (including the amount of arrears):
  - where the payment of principal or interest is past due (within the meaning of the decision on classification of balance sheet assets and off-balance sheet items) over 90 days,
  - where 90 days of interest payments have been attributed to the loan balance, capitalized, refinanced or delayed,
  - where payments are less than 90 days overdue, but the bank assessed that the borrower’s repayment ability has deteriorated and doubts that the payments will be made in full.