

FINANCIAL LEASING SUPERVISION

Second Quarter Report 2011

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Market participants

Number of lessors

As at 30 June 2011, the list of licensed lessors included:

- | | |
|---|---|
| 1. CA Leasing Srbija d.o.o. Beograd | 10. Porsche Leasing SCG d.o.o. Beograd |
| 2. EFG Leasing a.d. Beograd | 11. Procredit Leasing d.o.o. Beograd |
| 3. Hypo Alpe-Adria-Leasing d.o.o. Beograd | 12. Raiffeisen Leasing d.o.o. Beograd |
| 4. Intesa Leasing d.o.o. Beograd | 13. S-Leasing d.o.o. Beograd |
| 5. LIPAKS d.o.o. Beograd | 14. Sogelease Srbija d.o.o. Beograd |
| 6. NBG Lizing d.o.o. Beograd | 15. UniCredit Leasing Srbija d.o.o. Beograd |
| 7. NLB Leasing d.o.o. Beograd | 16. VB Leasing d.o.o. Beograd |
| 8. OTP Leasing d.o.o. Novi Sad | 17. Zastava Istrabenz Lizing d.o.o. Beograd |
| 9. Piraeus Leasing d.o.o. Beograd | |

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 and in Q1 2011. In Q2 the number of employees increased, reaching 484. The average number of employees per lessor was around 28. Table 1 below shows total employment in the financial leasing sector by years and as at 30 June 2011.

Table 1 – Number of employees in the financial leasing sector

Date	Number 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
30/ 06/ 2011	484

Ownership structure

Domestic vs. foreign ownership

- 11 lessors were in 100% or majority ownership of foreign legal entities;
- 5 lessors were in 100% or majority ownership of domestic entities (of which 4 were owned by domestic banks with foreign capital);
- 1 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

- 14 lessors were founded by banks, banking group members or other financial institutions;
- 2 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 gives an overview of the lessor ownership structure.

Table 2 – Lessor ownership structure

No	Lessor	Owner	Ownership percentage
1.	CA Leasing Srbija d.o.o. Beograd	Credit Agricole Banka Srbija a.d. Novi Sad	100
2.	EFG Leasing a.d. Beograd	EFG New Europe Holding b.v, Amsterdam, Netherlands	48.63
		EFG Eurobank Ergasias s.a, Athens, Greece	25.81
		Eurobank EFG a.d. Beograd	25.56
3.	Hypo Alpe-Adria-Leasing d.o.o. Beograd	Hypo-Alpe-Adria-Leasing Holding GmbH, Klagenfurt, Austria	100

No	Lessor	Owner	Ownership percentage
4.	Intesa Leasing d.o.o. Beograd	Banca Intesa a.d. Beograd CIB Leasing LTD, Budapest , Hungary	98.7 1.3
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, Slovenija	100
8.	OTP Leasing d.o.o. Novi Sad	Merkantil Bank ZRT, Budapest, Hungary OTP banka Srbija a.d. Novi Sad	70 30
9.	Piraeus Leasing d.o.o. Beograd	Piraeus Bank s.a. Athens, Greece Piraeus Bank a.d. Beograd	72.73 27.27
10.	Porsche Leasing SCG d.o.o. Beograd	Porsche Bank AG, Salzburg, Austria	100
11.	Procredit Leasing d.o.o. Beograd	ProCredit Bank a.d. Beograd	100
12.	Raiffeisen Leasing d.o.o. Beograd	Raiffeisen banka a.d. Beograd Raiffeisenbank - Leasing International GmbH, Vienna, Austria	50 50
13.	S-Leasing d.o.o. Beograd	Steiermarkische Bank und Sparkassen Aktiengesellschaft, Graz, Austria Erste Group Immorent International Holding GmbH, Vienna, Austria	50 50
14.	Sogelease Srbija d.o.o. Beograd	Societe Generale Banka Srbija a.d. Beograd	100
15.	UniCredit Leasing Srbija d.o.o. Beograd	UniCredit Leasing S.P.A, Bologna, Italy	100
16.	VB Leasing d.o.o. Beograd	VB-Leasing International Holding GmbH, Vienna, Austria Volksbank a.d. Beograd	51 49
17.	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

Balance sheet structure

Balance sheet

On 30 June 2011, total balance sheet assets of the leasing sector came at RSD 84.3 bln, down by 14.7% relative to 31 December 2010 (RSD 98.8 bln). The bulk of assets and liabilities was either foreign currency denominated or foreign currency clause indexed (91.2% of total assets and 88.4% of total liabilities).

Notwithstanding a 10.9% fall at end-Q2 relative to end-2010, financial lease receivables accounted for the largest share of total assets. Of total balance sheet assets,

financial lease receivables accounted for 78.2%, which is an increase relative to both 2009 and 2010 (75.1% and 74.8% respectively).

Lessors' current assets shrank by 26.8% relative to 2010, chiefly in response to a 45.9% drop in cash and cash equivalents. The share of this item in total balance sheet assets fell from 14.9% at end-2010 to 9.5% at end-Q2 2011 (18.1% in 2009). The share of reserves against credits, other loans and supplementary payments from abroad, included in the item 'cash and cash equivalents' rose from 50.4% at end-2010 to 75.7% on 30 June 2011.

The share of short-term financial assets and receivables rose from 6.7% at end-2010 to 8.4% at end-Q2 2011, while the share of other current assets and deferred tax assets went up from 2.8% to 3.1%. Unable to invest in financial leasing, some lessors termed their excess financial assets with banks, inducing growth in short-term financial assets and receivables.

As at 30 June 2011, long-term obligations accounted for the largest share of total liabilities – 87.6%, down by 16.7% from 2010 (89.9% in 2009 and 89.6% in 2010). The share of long-term foreign credits subsided from 86.0% in 2010 to 84.2% (86.1% in 2009). The share of long-term domestic credits also fell from 3.6% in 2010 to 3.4% (3.8% in 2009).

The share of short-term obligations in total liabilities rose from 2.1% in 2010 to 2.5% (1.9% in 2009), of which 1.9% referred to other obligations and deferred tax obligations (1.6% in 2009 and 1.7% in 2010). Short-term domestic credits accounted for 0.5% of total liabilities (0.2% in 2009 and 0.3% in 2010), while obligations under interest and other costs of financing accounted for a share of 0.1% just as in 2009 and 2010.

The 2.1% increase in capital in the first half of 2011 relative to 2010 was driven largely by the rise in retained earnings. As balance sheet assets decreased and capital increased, the share of capital in total liabilities rose from 8.2% in 2010 to 9.8% on 30 June 2011 (8.1% in 2009).

Table 3 shows the aggregate balance sheet of all lessors (in RSD thousand) as at 31 December 2009, 31 December 2010 and 30 June 2011.

Table 3 – Aggregate balance sheet of all lessors

(in RSD 000)

No	ITEM	31 Dec 2009		31 Dec 2010		30 June 2011		% growth	
		amount	%	amount	%	amount	%	31.12.10/ 31.12.09.	30.06.11/ 31.12.10.
	ASSETS	111,313,931	100.0	98,834,426	100.0	84,263,364	100.0	-11.2	-14.7
1	FIXED ASSETS	84,474,525	75.9	74,687,519	75.6	66,598,315	79.0	-11.6	-10.8
1.1	Property, plant and equipment	701,953	0.6	585,866	0.6	543,318	0.6	-16.5	-7.3
1.2	Receivables under financial leasing	83,548,501	75.1	73,921,551	74.8	65,884,634	78.2	-11.5	-10.9

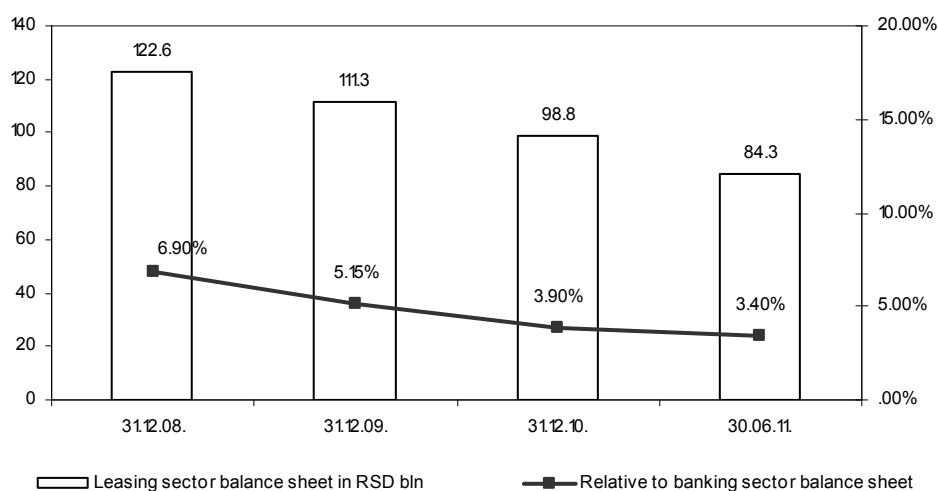
Financial leasing market

No	ITEM	31 Dec 2009		31 Dec 2010		30 June 2011		% growth	
		amount	%	amount	%	amount	%	31.12.10/ 31.12.09.	30.06.11/ 31.12.10.
1.3	Other long-term financial assets	158,009	0.1	89,674	0.1	51,769	0.1	-43.2	-42.3
1.4	Other fixed assets	66,062	0.1	90,428	0.1	118,594	0.1	36.9	31.1
2	CURRENT ASSETS	26,839,406	24.1	24,146,907	24.4	17,665,049	21.0	-10.0	-26.8
2.1	Cash and cash equivalents	20,102,370	18.1	14,769,525	14.9	7,993,825	9.5	-26.5	-45.9
2.2	Short-term financial assets and receivables	3,964,327	3.6	6,586,333	6.7	7,052,225	8.4	66.1	7.1
2.3	Other current assets and deferred tax assets	2,772,709	2.4	2,791,049	2.8	2,618,999	3.1	0.7	-6.2
	LIABILITIES	111,313,931	100.0	98,834,426	100.0	84,263,363	100.0	-11.2	-14.7
1	CAPITAL	8,947,216	8.1	8,121,587	8.2	8,296,038	9.8	-9.2	2.1
1.1	Share capital	3,438,445	3.1	3,756,458	3.8	3,756,458	4.5	9.2	0.0
1.2	Reserves	2,730,229	2.5	3,688,091	3.7	3,685,826	4.3	35.1	-0.1
1.3	Revaluation reserves	0	0.0	0	0.0	0	0.0	-	-
1.4	Net unrealized gains/losses	0	0.0	0	0.0	0	0.0	-	-
1.5	Retained earnings	3,525,730	3.2	2,922,520	3.0	3,561,632	4.2	-17.1	21.9
1.6	Losses	745,517	0.7	2,243,216	2.3	2,707,878	3.2	200.9	20.7
1.7	Purchased own shares and stakes	1,671	0.0	2,266	0.0	0	0.0	35.6	-100.0
2	LONG-TERM PROVISIONING AND LIABILITIES	100,265,797	90.0	88,715,984	89.7	73,853,709	87.6	-11.5	-16.8
2.1	Long-term provisions	151,685	0.1	143,067	0.1	52,165	0.1	-5.7	-63.5
2.2	Long-term liabilities	100,114,112	89.9	88,572,917	89.6	73,801,544	87.6	-11.5	-16.7
2.2.1	Long-term domestic credit	4,296,175	3.8	3,552,908	3.6	2,847,271	3.4	-17.3	-19.9
2.2.2	Long-term foreign credit	95,797,916	86.1	85,020,009	86.0	70,954,273	84.2	-11.3	-16.5
2.2.3	Other long-term liabilities	20,021	0.0	0	0.0	0	0.0	-100.0	-
3	SHORT-TERM LIABILITIES	2,100,918	1.9	1,996,855	2.1	2,113,616	2.5	-5.0	5.8
3.1	Short-term financial liabilities	369,927	0.3	321,261	0.4	502,137	0.6	-13.2	56.3
3.1.1	Short-term domestic credit	238,195	0.2	253,887	0.3	448,231	0.5	6.6	76.5
3.1.2	Short-term foreign credit	0	0.0	0	0.0	0	0.0	-	-
3.1.3	Liabilities under interest and other costs of financing	131,732	0.1	67,374	0.1	53,906	0.1	-48.9	-20.0
3.2	Other liabilities and deferred tax liabilities	1,730,991	1.6	1,675,594	1.7	1,611,479	1.9	-3.2	-3.8

Balance sheet total of lessors and banks

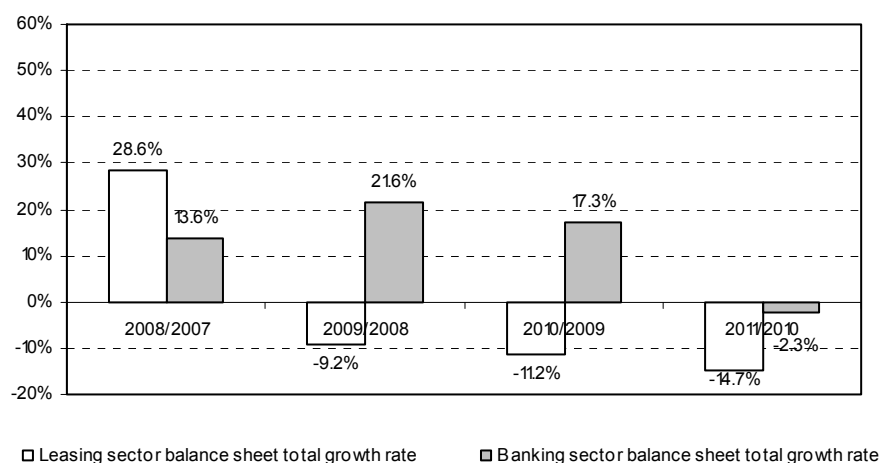
As at 30 June 2011, the ratio of balance sheet total of the leasing sector (RSD 84.3 bln) to banking sector balance sheet total equalled 3.4%, as illustrated in Chart 1 below.

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



From 31 December 2010 to 30 June 2011, leasing sector balance sheet total declined by 14.7%, while banking sector balance sheet total decreased by 2.3% in the same period (Chart 2).

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



Market share

In order to analyse the structure of the financial leasing market and the level 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).

Table 4 – Market share of lessors

Rank	Lessor	Balance sheet assets (in 000 RSD)	Share in 2010	Cumul. share in 2010	Rank	Lessor	Balance sheet assets (in 000 RSD)	Share in 2011	Cumul. share in 2011
1.	Hypo Alpe-Adria-Leasing d.o.o. Beograd	28,698,484	29.0%	29.0%	1.	Hypo Alpe-Adria-Leasing d.o.o. Beograd	23,501,092	27.9%	27.9%
2.	NLB Leasing d.o.o. Beograd	10,648,448	10.8%	39.8%	2.	NLB Leasing d.o.o. Beograd	7,504,467	8.9%	36.8%
3.	Raiffeisen Leasing d.o.o. Beograd	9,720,438	9.8%	49.6%	3.	Raiffeisen Leasing d.o.o. Beograd	6,949,867	8.2%	45.0%
4.	VB Leasing d.o.o. Beograd	6,119,481	6.2%	55.8%	4.	EFG Leasing a.d. Beograd	5,991,746	7.1%	52.1%
5.	EFG Leasing a.d. Beograd	6,088,951	6.2%	62.0%	5.	Intesa Leasing d.o.o. Beograd	5,711,343	6.8%	58.9%
6.	Intesa Leasing d.o.o. Beograd	5,945,518	6.0%	68.0%	6.	VB Leasing d.o.o. Beograd	5,645,274	6.7%	65.6%
7.	NBG Lizing d.o.o. Beograd	4,882,389	4.9%	72.9%	7.	UniCredit Leasing Srbija d.o.o. Beograd	4,825,711	5.8%	71.4%
8.	UniCredit Leasing Srbija d.o.o. Beograd	4,804,870	4.9%	77.8%	8.	NBG Lizing d.o.o. Beograd	4,379,059	5.2%	76.6%
9.	S-Leasing d.o.o. Beograd	4,176,028	4.2%	82.0%	9.	Sogelease Srbija d.o.o. Beograd	3,830,237	4.5%	81.1%
10.	Sogelease Srbija d.o.o. Beograd	3,962,835	4.0%	86.0%	10.	S-Leasing d.o.o. Beograd	3,219,674	3.8%	84.9%
11.	LIPAKS d.o.o. Beograd	3,530,470	3.6%	89.6%	11.	LIPAKS d.o.o. Beograd	2,996,900	3.6%	88.5%
12.	Procredit Leasing d.o.o. Beograd	2,925,445	3.0%	92.6%	12.	CA Leasing Srbija d.o.o. Beograd	2,864,482	3.4%	91.9%
13.	CA Leasing Srbija d.o.o. Beograd	2,860,493	2.9%	95.5%	13.	Procredit Leasing d.o.o. Beograd	2,645,314	3.1%	95.0%
14.	Porsche Leasing SCG d.o.o. Beograd	2,385,947	2.4%	97.9%	14.	Porsche Leasing SCG d.o.o. Beograd	2,158,869	2.6%	97.6%
15.	Piraeus Leasing d.o.o. Beograd	1,442,845	1.5%	99.4%	15.	Piraeus Leasing d.o.o. Beograd	1,473,905	1.7%	99.3%
16.	Zastava Istrabenz Lizing d.o.o. Beograd	554,932	0.5%	99.9%	16.	Zastava Istrabenz Lizing d.o.o. Beograd	480,357	0.6%	99.9%
17.	OTP Leasing d.o.o. Novi Sad	86,852	0.1%	100.0%	17.	OTP Leasing d.o.o. Novi Sad	85,067	0.1%	100.0%
TOTAL		98,834,426	100.0%	-	TOTAL		84,263,364	100.0%	-
Herfindahl-Hirschman index			1,288.6		Herfindahl-Hirschman index			1,205.7	

The HHI of 1,205.7 on 30 June 2011 points to moderate concentration of the Serbian financial leasing market.

As Table 4 shows, the ranking of lessors by market share changed at end-Q2 relative to end-2010. The first three lessors (Hypo Alpe-Adria-Leasing d.o.o. Beograd, NLB Leasing d.o.o. Beograd and Raiffeisen Leasing d.o.o. Beograd) retained their leading positions in the first half of 2011 even though their market share contracted from 49.6% last year to 45.0% at end-Q2.

The most significant change in ranking and market share as at 30 June 2011 relative to 2010 was recorded for VB Leasing d.o.o. Beograd, which slid from the fourth to the sixth position despite the rise in market share from 6.2% to 6.7%.

Two lessors (UniCredit Leasing Srbija d.o.o. Beograd and CA Leasing Srbija d.o.o. Beograd) moved one notch up, recording an increase in both market share and balance sheet assets, while three lessors (EFG Leasing a.d. Beograd, Intesa Leasing d.o.o. Beograd and Sogelease Srbija d.o.o. Beograd) moved one notch up while recording an increase in market share and a decrease in balance sheet assets.

Two lessors (NBG Lizing d.o.o. Beograd and Procredit Leasing d.o.o. Beograd) moved one notch down despite the increase in market share, while S-Leasing d.o.o. Beograd fell from the ninth place in 2010 to the tenth place at mid-2011, its market share also going down.

Profit and loss account

Total profit before tax of all financial lessors amounted to RSD 255.7 mln in the first half of 2011 (in 2010 it was positive at RSD 868.1 mln). In the period under review, total income and expenses fell by 15.8% and 28.0% respectively.

Interest income from leasing accounted for the major part of total income, though its share declined from 70.3% in 2010 to 68.4% in the first half of 2011 (88.6% in 2009). Operating income had a significant share of 10.9% of total income, followed by net income from other interest with 8.4%, other income and gains with 6.5% and net income from exchange rate differentials and effects of the currency clause with 4.3%.

Interest expenses arising from leasing operations accounted for the largest share of total expenses. Their share fell from 29.9% in 2010 to 28.6% in the first half of 2011 (34.9% in 2009). Net expenses arising from asset value adjustment made up 26.0% of total income; earnings, fees, salaries and other personal expenses – 13.5%, and other operating expenses – 13.4%. Expenses arising from leasing operations participated in total income with 3.1%, net expenses from exchange rate differentials and effects of the currency clause – 2.6%, net losses on sale and lease – 2.4%, and other losses and expenses – 2.0%.

Table 5 shows the aggregate profit and loss account of all lessors (in thousand dinars) as at 31 December 2009, 31 December 2010 and 30 June 2011.

Table 5 – Aggregate profit and loss account of lessors

(in RSD 000)

No	ITEM	01.01.- 31.12.09.	% of total inc.	01.01.- 31.12.10.	% of total inc.	01.01.- 30.06.11.	% of total inc.	% growth 2010/ 2009	% growth 2011/ 2010
INCOME AND EXPENSES FROM REGULAR OPERATIONS									
OPERATING INCOME AND EXPENSES									
1	Interest income from leasing	8,627,242	88.6	6,579,349	70.3	2,692,864	68.4	-23.7	-18.1
2	Interest expenses from leasing	3,393,615	34.9	2,799,920	29.9	1,127,302	28.6	-17.5	-19.5
3	Income from leasing	555,625	5.7	1,044,800	11.2	428,953	10.9	88.0	-17.9
4	Expenses from leasing	1,212,787	12.5	272,992	2.9	123,675	3.1	-77.5	-9.4
I	BUSINESS RESULT	4,576,465	47.0	4,551,236	48.6	1,870,840	47.5	-0.6	-17.8
OTHER INCOME AND EXPENSES									
5	Net income from other interest	0	0.0	736,079	7.9	332,300	8.4	-	-9.7
6	Net expenses from other interest	1,260	0.0	0	0.0	4,926	0.1	-100.0	-
7	Net income from exchange rate differentials and currency clause effects	333,988	3.4	489,583	5.2	168,968	4.3	46.6	-31.0
8	Net expenses from exchange rate differentials and currency clause effects	0	0.0	444,349	4.7	104,035	2.6	-	-53.2
9	Net income from share in income of related legal entities and joint investment	0	0.0	0	0.0	18,579	0.5	-	-
10	Net expenses from share in losses of related legal entities and joint investment	10,259	0.1	0	0.0	0	0.0	-100.0	-
11	Net income from sale and lease	190,693	2.0	94,508	1.0	31,830	0.8	-50.4	-32.6
12	Net losses from sale and lease	0	0.0	257,935	2.8	93,995	2.4	-	-27.1
13	Earnings, fees, salaries and other personal expenses	969,622	10.0	1,045,085	11.2	532,053	13.5	7.8	1.8
14	Depreciation and provisioning	228,992	2.4	154,875	1.7	65,488	1.7	-32.4	-15.4
15	Other operating expenses	63,725	0.7	1,243,422	13.3	527,641	13.4	1,851.2	-15.1
16	Net income from sale of intangible investment, property, plant, equipment and other assets	18,421	0.2	27,616	0.3	8,206	0.2	49.9	-40.6
17	Net loss from sale of intangible investment, property, plant, equipment and other assets	0	0.0	744	0.0	161	0.0	-	-56.7
18	Net income from sale of share in capital and securities	0	0.0	0	0.0	0	0.0	-	-
19	Net loss from sale of share in capital and securities	0	0.0	0	0.0	0	0.0	-	-
20	Net income from asset value adjustment	0	0.0	0	0.0	0	0.0	-	-
21	Net expenses from asset value adjustment	1,769,605	18.2	3,811,858	40.7	1,025,255	26.0	115.4	-46.2
22	Other income and gains	9,486	0.1	385,768	4.1	256,259	6.5	3,966.7	32.9
23	Other expenses and losses	31,597	0.3	194,886	2.1	77,716	2.0	516.8	-20.2
II	REGULAR OPERATING RESULT	2,053,993	21.1	-868,364	-9.3	255,712	6.5	-142.3	-158.9
24	NET GAIN FROM DISCONTINUED OPERATIONS	0	0.0	319	0.0	47	0.0	-	-70.5
25	NET LOSS FROM DISCONTINUED OPERATIONS	0	0.0	14	0.0	45	0.0	-	542.9

No	ITEM	01.01.- 31.12.09.	% of total inc.	01.01.- 31.12.10.	% of total inc.	01.01.- 30.06.11.	% of total inc.	% growth 2010/ 2009	% growth 2011/ 2010
III	PRE-TAX RESULT	2,053,993	21.1	-868,059	-9.3	255,714	6.5	-142.3	-158.9
26	PROFIT TAX								
26.1	1. Tax expense of the period	218,407	2.2	221,347	2.4	65,905	1.7	1.3	-40.5
26.2	2. Deferred tax expenses of the period	7,201	0.1	19,706	0.2	10,478	0.3	173.7	6.3
26.3	3. Deferred tax income of the period	23,659	0.2	117,902	1.3	18	0.0	398.3	-100.0
27	Paid personal income to employer	0	0.0	0	0.0	0	0.0	-	-
IV	NET RESULTS	1,852,044	19.0	-991,210	-10.6	179,349	4.6	-153.5	-136.2
V	TOTAL INCOME AND PROFIT	9,735,455	100.0	9,358,021	100.0	3,938,006	100.0	-3.9	-15.8
VI	TOTAL EXPENSES AND LOSSES	7,681,462	78.9	10,226,080	109.3	3,682,292	93.5	33.1	-28.0

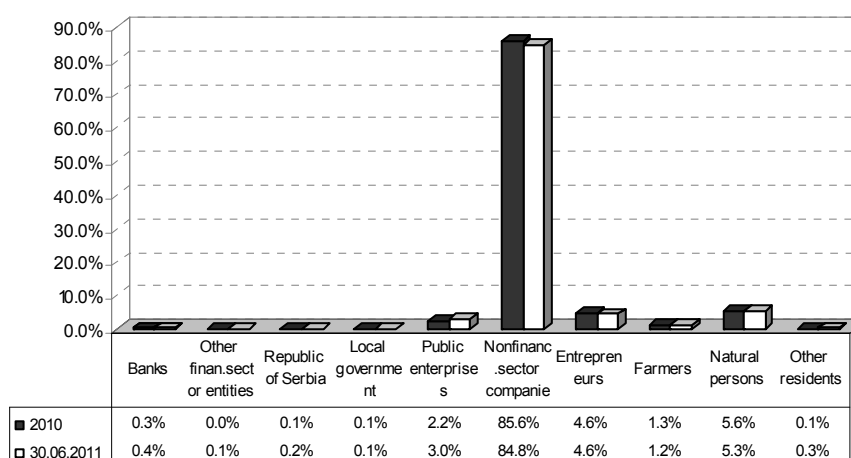
Structure of investments and asset quality

Lessees

The analysis of the structure of investments (Chart 3) now includes several new categories of lessees. Still, the structure of investments by lessee remained broadly unchanged in 2011 relative to 2010.

As last year, at end-Q2 2011, most financial lease arrangements were approved to non-financial sector companies (84.8%), while the share of other lessees was much lower. The share of natural persons was 5.3%, entrepreneurs – 4.6%, public enterprises – 3.0%, and farmers – 1.2%. The share of the remaining categories was below 1% each.

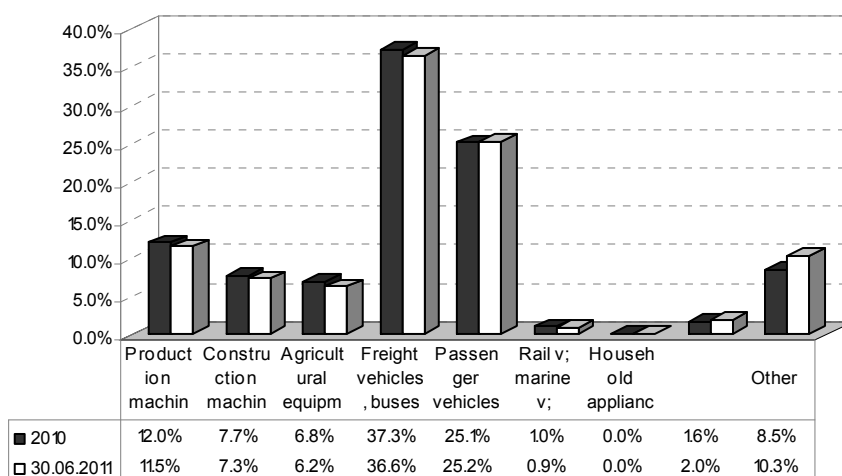
Chart 3 – Investment structure by lessee



Object of financing

There were no major changes in the structure of lease investments by the object of financing in 2011 (Chart 4). The financing of freight vehicles, minibuses and buses continued to account for the largest share of lease investments – 36.6% (37.3% in 2010). Next in size, was the share of financing of passenger vehicles – 25.2% (25.1% in 2010).

Chart 4 – Investment structure by lease object

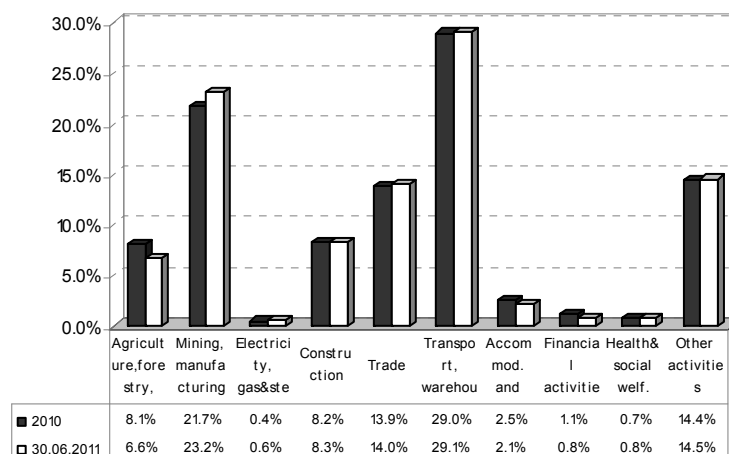


A decrease in the share of financing was recorded for production machinery (from 12.0% to 11.5%), construction machinery (from 7.7% to 7.3%) and agricultural equipment (from 6.8% to 6.2%). The share of financing of other lease objects increased from 8.5% in 2010 to 10.3% at end-Q2.

Investment structure by sector

The structure of financial lease investment by sector is shown in Chart 5.

Chart 5 – Investment structure by sector



The most significant share in total financial lease investments at end-Q2 was that of transport, warehousing, information and communication (29.1% vs. 29.0% in 2010). Key changes in the sector distribution of financial lease investments relative to the previous year relate to the share of manufacturing, mining and water supply, which increased from 21.7% to 23.2%, and to the share of agriculture, forestry and fishing, which decreased from 8.1% to 6.6%. Other activities accounted for 14.5% (14.4% in 2010) and trade for 14.0% (13.9% in 2010).

Asset quality

On 30 June 2011, the value of the financial leasing market portfolio was RSD 65.9 bln, down by 10.9% relative to end-2010 (RSD 73.9 bln). Past due receivables made up 71.0% of capital (76.3% in 2010), while at the same time accounting for 8.9% of total portfolio (8.4% in 2010). Receivables past due more than 30 days accounted for 18.2% of total past due receivables, while receivables past due more than 90 days accounted for 63.7%. The share of allowances for impairment of receivables in total receivables rose from 8.4% to 10.3%.

In the first half of 2011, the value of returned lease objects was RSD 1,504.2 mln, which, together with outstanding balances from previous years, came to RSD 3,261.7 mln or 5.0% of the portfolio and 74.1% of capital. Of the above value of the returned lease objects, lessors re-leased 17.2%, sold 33.6%, while over 39% remained unemployed. The value of returned lease objects was impaired by nearly 11%. On 30 June 2011, the stock of returned lease objects came at RSD 1,252.4 mln or 1.9% of the

portfolio and 15.1% of capital (at end-2010, the stock of returned lease objects came at 1.7% of the portfolio and 15.3% of capital).

Performance indicators

Table 6 shows performance indicators for financial leasing providers.

Table 6 – Performance indicators

PERFORMANCE INDICATORS	31 Dec 2010	30 June 2011
Return on assets (ROA)	-0.83%	0.56%
Return on equity (ROE)	-10.17%	6.23%
Net interest margin	5.74%	5.42%
Average lending rate	9.36%	8.67%
Average deposit rate	3.01%	2.78%
Coverage of interest expenses	0.70x	1.23x
Operating expenses to average investment	3.10%	3.22%
Total debt to equity	11.17x	9.16x
Long-term debt to equity	10.92x	8.90x

Performance indicators of financial leasing providers (ROA and ROE) were positive at end-Q2 2011 thanks to the positive pre tax result.

Average lending and deposit rates decreased by approximately the same percentage relative to 2010, while the coverage of interest expenses increased.

As equity increased and debt decreased, solvency in the financial leasing market improved. This is supported by the fact that total debt and long-term debt were 9.16 and 8.90 times higher than equity, respectively.

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 30 June 2011, foreign credit obligations made up 84.2% of total liabilities, while financial lease investment accounted for 78.2% of total assets. The share of long-term domestic credits declined relative to 2010 from 3.6% to 3.4% of total liabilities, while the share of short-term domestic credits rose from 0.3% to 0.5%. In the majority of cases, foreign creditors of leasing companies were either their founders or legal entities operating within the same banking group.

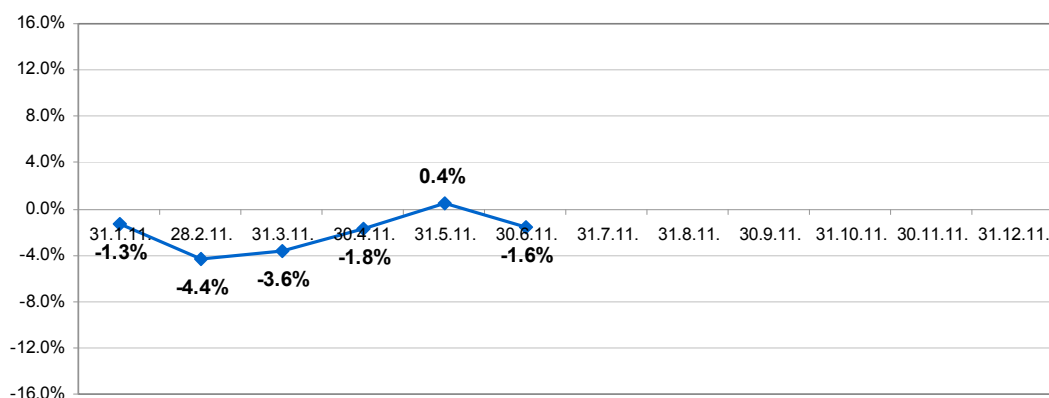
The reserving base as at 30 June 2011 (against which allocation was made on 18 July 2011) decreased 11.6 times relative to the reserving base as at 31 December 2010 (against which the allocation was made on 18 January 2011) to reach EUR 546.7 mln.

Starting from 31 March 2010, reserve balances are not calculated against obligations under credits received from international financial institutions, governments and financial institutions founded by foreign states. In that regard, on 30 June 2011, the calculation of reserve balances was not made against EUR 68.6 mln.

Changes in the reserving base relative to the previous month in the course of 2011 are shown in Chart 6 below.

Chart 6 – Changes in the reserving base

(relative to the previous month)



Changes in total reserves allocated by leasing providers in the course of 2011 (in EUR thousand) are illustrated in Chart 7 below.

Chart 7 – Total reserves allocated by lessors

(in EUR thousand)

