

FINANCIAL LEASING SUPERVISION

Fourth Quarter Report 2010

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Market participants

Number of lessors

As at 31 December 2010, the list of licensed lessors included:

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

Number of employees

After rising steadily from year to year, in 2009 total employment in the financial leasing sector recorded a downturn. The downward trend continued in 2010 as well – at end-Q4 the number of employees reached 476. The average number of employees per lessor came to 28. Table 1 below shows total employment in the financial leasing sector by years.

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

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.	EFG Leasing a.d. Belgrade	EFG New Europe Holding b.v, Amsterdam, Holland	48.63
		EFG Eurobank Ergasias s.a, Athens, Greece	25.81
		Eurobank EFG a.d. Belgrade	25.56
2.	Hypo Alpe-Adria-Leasing d.o.o. Belgrade	Hypo-Alpe-Adria-Leasing Holding AG, Klagenfurt, Austria	100
3.	Intesa Leasing d.o.o. Belgrade	Banca Intesa a.d. Belgrade	98.7
		CIB Leasing LTD, Budapest, Hungary	1.3

No	Lessor	Owner	Ownership percentage
4.	LIPAKS d.o.o. Belgrade	Mirko Žeželj	37.18
		Zoran Tanasić	37.18
		Lipaks doo, Belgrade	22.84
		Sandra Džodić	2.40
		Milorad Milić	0.40
5.	Meridian Leasing d.o.o. Belgrade	Credit Agricole Banka Srbija a.d. Novi Sad	100
6.	NBG Lizing d.o.o. Belgrade	National Bank of Greece s.a. Athens, Greece	100
7.	NLB Leasing d.o.o. Belgrade	Nova Ljubljanska banka d.d. Ljubljana, Slovenia	100
8.	OTP Leasing d.o.o. Novi Sad	Merkantil Bank ZRT, Budapest, Hungary	70
		OTP banka Srbija a.d. Novi Sad	30
9.	Piraeus Leasing d.o.o. Belgrade	Piraeus Bank s.a. Athens, Greece	72.73
		Piraeus Bank a.d. Belgrade	27.27
10.	Porsche Leasing SCG d.o.o. Belgrade	Porsche Bank AG, Salzburg, Austria	100
11.	Procredit Leasing d.o.o. Belgrade	ProCredit Bank a.d. Belgrade	100
12.	Raiffeisen Leasing d.o.o. Belgrade	Raiffeisen banka a.d. Belgrade	50
		Raiffeisenbank - Leasing International GmbH, Vienna, Austria	50
13.	S-Leasing d.o.o. Belgrade	Steiermarkische Bank und Sparkassen Aktiengesellschaft, Graz, Austria	50
		Erste Group Immorent International Holding GmbH, Vienna, Austria	50
14.	Sogelease Srbija d.o.o. Belgrade	Societe Generale Banka Srbija a.d. Belgrade	100
15.	UniCredit Leasing Srbija d.o.o. Belgrade	UniCredit Leasing S.P.A, Bologna, Italy	100
16.	VB Leasing d.o.o. Belgrade	VB-Leasing International Holding GmbH, Vienna, Austria	51
		Volksbank a.d. Belgrade	49
17.	Zastava Istrabenz Lizing d.o.o. Belgrade	Istrabenz D.D. Koper, Slovenia	95.2
		AD for holding, consulting and management, Zastava vozila group, Kragujevac – undergoing restructuring	4.8

Balance sheet structure

Balance sheet

On 31 December 2010, total balance sheet assets of the leasing sector came to RSD 98.8 bln, down by 11.2% relative to 31 December 2009 (RSD 111.3 bln). The bulk of assets and liabilities of lessors was either foreign currency denominated or foreign currency clause indexed (91% of total assets and 90% of total liabilities).

Notwithstanding a 11.5% fall at end-2010 relative to end-2009, financial lease receivables accounted for the largest share of total assets. Of total balance sheet assets, financial lease receivables accounted for 74.8%, which is a decrease relative to both 2009 and 2008 (78.1% and 75.1% respectively).

The share of cash and cash equivalents in total balance sheet assets dropped from 18.1% at end-2009 to 14.9% (14.6% in 2008). The share of reserves against credits, other loans and supplementary payments from abroad, included in the item 'cash and cash equivalents' declined from 70.7% at end-2009 to 50.4% on 31 December 2010.

The share of short-term financial investment and receivables rose from 3.6% at end-2009 to 6.7% at end-Q4 2010, while the share of other current assets and deferred tax assets rose from 2.4% to 2.8% in the same period. As it is not possible to invest in financial leasing, some lessors termed with banks their excess financial assets under unpaid leasing fee instalments and reduced the reserving rate (4.8% of total balance sheet assets on 31 December 2010).

As at 31 December 2010, long-term obligations accounted for the largest share of total liabilities – 89.6% (they declined by the amount of obligations under interest from Q3 2010), down by 11.5% from 2009 (90.8% in 2008 and 89.9% in 2009). The share of long-term foreign credits subsided from 86.1% in 2009 to 86.0% (86.7% in 2008). The share of long-term domestic credits also fell from 3.8% in 2009 to 3.6% (4.0% in 2008).

As at 31 December 2010, the share of short-term obligations in total liabilities rose from 1.9% in 2009 to 2.1% (4.0% in 2008), of which 0.3% referred to short-term domestic credits (2.0% in 2008 and 0.2% in 2009), 0.1% referred to obligations under interest and other costs of financing (0.1% both in 2008 and 2009), while the share of item 'other obligations and deferred tax obligations' rose relative to 2009 from 1.6% to 1.7% of total liabilities (1.9% in 2008).

Despite an increase in share capital, capital lost 9.2% in 2010 relative to 2009 on account of a rise on item 'loss' and decline in 'retained earnings'. A smaller decline in capital than balance sheet total pushed up the share of capital in total liabilities – from 8.1% in 2009 to 8.2% on 31 December 2010 (5.1% in 2008).

Table 3 shows the aggregate balance sheet of all lessors (in RSD thousand) as at 31 December 2008, 31 December 2009 and 31 December 2010.

Table 3 – Aggregate balance sheet of all lessors

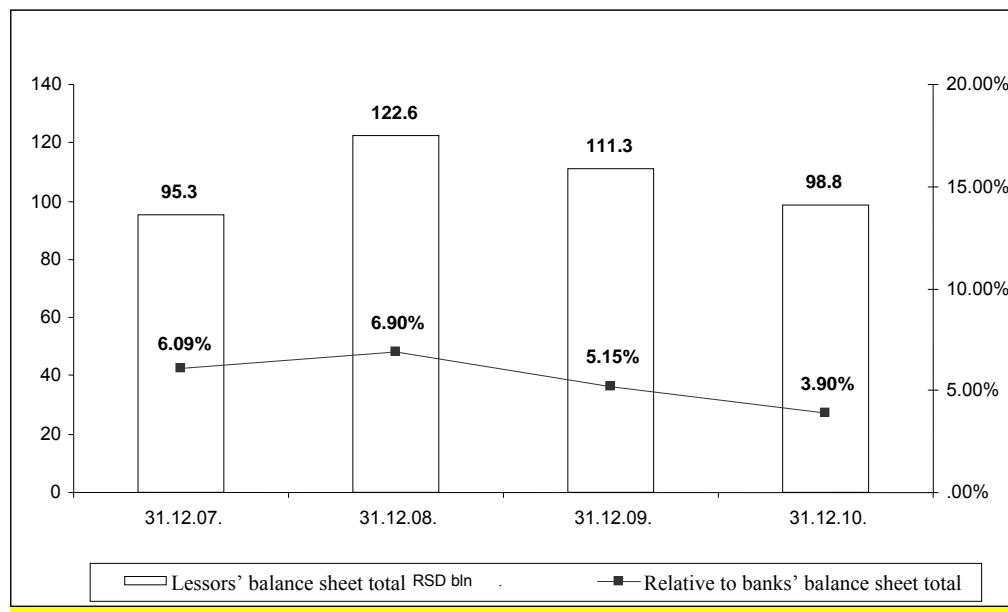
(in RSD thousand)

No	ITEM	31 Dec. 2008		31 Dec. 2009		31 Dec. 2010		% of growth	
		amount	%	amount	%	amount	%	31.12.09/ 31.12.08	31.12.10/ 31.12.09
ASSETS		122,550,536	100.0	111,313,931	100.0	98,834,426	100.0	-9.2	-11.2
1	FIXED ASSETS	97,276,541	79.4	84,474,525	75.9	74,687,519	75.6	-13.2	-11.6
1.1	Property, plant and equipment	952,585	0.8	701,953	0.6	585,866	0.6	-26.3	-16.5
1.2	Receivables under financial leasing	95,688,354	78.1	83,548,501	75.1	73,921,551	74.8	-12.7	-11.5
1.3	Other long-term financial investments	574,952	0.5	158,009	0.1	89,674	0.1	-72.5	-43.2
1.4	Other fixed assets	60,650	0.0	66,062	0.1	90,428	0.1	8.9	36.9
2	CURRENT ASSETS	25,273,995	20.6	26,839,406	24.1	24,146,907	24.4	6.2	-10.0
2.1	Cash and cash equivalents	17,986,197	14.6	20,102,370	18.1	14,769,525	14.9	11.8	-26.5
2.2	Short-term financial investment and receivables	4,769,249	3.9	3,964,327	3.6	6,586,333	6.7	-16.9	66.1
2.3	Other current assets and deferred tax assets	2,518,549	2.1	2,772,709	2.4	2,791,049	2.8	10.1	0.7
LIABILITIES		LIABILITIES	100.0	111,313,931	100.0	98,834,426	100.0	-9.2	-11.2
1	CAPITAL	6,224,605	5.1	8,947,216	8.1	8,121,587	8.2	43.7	-9.2
1.1	Share capital	2,816,976	2.3	3,438,445	3.1	3,756,458	3.8	22.1	9.2
1.2	Reserves	2,369,893	1.9	2,730,229	2.5	3,688,091	3.7	15.2	35.1
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	2,316,891	1.9	3,525,730	3.2	2,922,520	3.0	52.2	-17.1
1.6	Losses	1,279,155	1.0	745,517	0.7	2,243,216	2.3	-41.7	200.9
1.7	Purchased own shares	0	0.0	1,671	0.0	2,266	0.0	-	35.6
						0			
2	LONG-TERM PROVISIONING AND LIABILITIES	111,461,209	90.9	100,265,797	90.0	88,715,984	89.7	-10.0	-11.5
2.1	Long-term provisions	125,132	0.1	151,685	0.1	143,067	0.1	21.2	-5.7
2.2	Long-term liabilities	111,336,077	90.8	100,114,112	89.9	88,572,917	89.6	-10.1	-11.5
2.2.1	Long-term domestic credit	4,841,274	4.0	4,296,175	3.8	3,552,908	3.6	-11.3	-17.3
2.2.2	Long-term foreign credit	106,352,481	86.7	95,797,916	86.1	85,020,009	86.0	-9.9	-11.3
2.2.3	Other long-term liabilities	142,322	0.1	20,021	0.0	0	0.0	-85.9	-100.0
3	SHORT-TERM LIABILITIES	4,864,722	4.0	2,100,918	1.9	1,996,855	2.1	-56.8	-5.0
3.1	Short-term financial liabilities	2,545,393	2.1	369,927	0.3	321,261	0.4	-85.5	-13.2
3.1.1	Short-term domestic credit	2,423,673	2.0	238,195	0.2	253,887	0.3	-90.2	6.6
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	121,720	0.1	131,732	0.1	67,374	0.1	8.2	-48.9
3.2	Other liabilities and deferred tax liabilities	2,319,329	1.9	1,730,991	1.6	1,675,594	1.7	-25.4	-3.2

Balance sheet total of lessors and banks

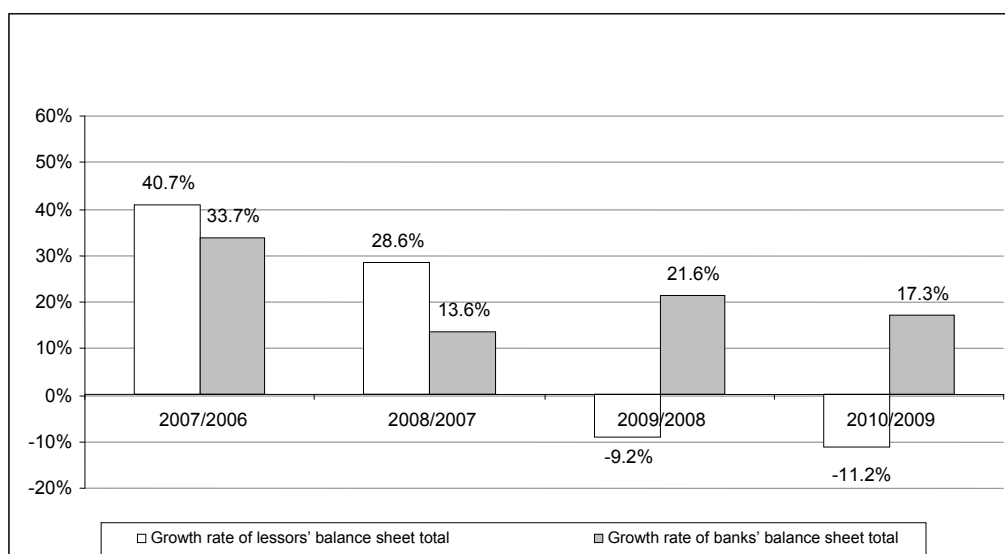
As at 31 December 2010, the ratio of balance sheet total of the leasing sector (RSD 98.8 bln) to banking sector balance sheet total equalled 3.90%, as illustrated in Chart 1 below.

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



From 31 December 2009 to 31 December 2010, leasing sector balance sheet total declined by 11.2%, while banking sector balance sheet total went up by 17.3% 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 2009	Cumulat. share in 2009	Position	Lessor	Balance sheet assets (in 000 RSD)	Share in 2010	Cumulative share in 2010
1.	Hypo Alpe-Adria-Leasing d.o.o. Belgrade	33,159,401	29.8%	29.8%	1.	Hypo Alpe-Adria-Leasing d.o.o. Belgrade	28,698,484	29.0%	29.0%
2.	Raiffeisen Leasing d.o.o. Belgrade	14,900,868	13.4%	43.2%	2.	NLB Leasing d.o.o. Belgrade	10,648,448	10.8%	39.8%
3.	NLB Leasing d.o.o. Belgrade	11,035,543	9.9%	53.1%	3.	Raiffeisen Leasing d.o.o. Belgrade	9,720,438	9.8%	49.6%
4.	S-Leasing d.o.o. Belgrade	7,408,422	6.7%	59.7%	4.	VB Leasing d.o.o. Belgrade	6,119,481	6.2%	55.8%
5.	VB Leasing d.o.o. Belgrade	6,850,598	6.2%	65.9%	5.	EFG Leasing a.d. Belgrade	6,088,951	6.2%	62.0%
6.	Intesa Leasing d.o.o. Belgrade	5,981,111	5.4%	71.3%	6.	Intesa Leasing d.o.o. Belgrade	5,945,518	6.0%	68.0%
7.	NBG Lizing d.o.o. Belgrade	5,128,733	4.6%	75.9%	7.	NBG Lizing d.o.o. Belgrade	4,882,389	4.9%	72.9%
8.	EFG Leasing a.d. Belgrade	5,037,050	4.5%	80.4%	8.	UniCredit Leasing Srbija d.o.o. Belgrade	4,804,870	4.9%	77.8%
9.	Sogelease Srbija d.o.o. Belgrade	4,044,828	3.6%	84.0%	9.	S-Leasing d.o.o. Belgrade	4,176,028	4.2%	82.0%
10.	UniCredit Leasing Srbija d.o.o. Belgrade	4,030,702	3.6%	87.6%	10.	Sogelease Srbija d.o.o. Belgrade	3,962,835	4.0%	86.0%

Rank	Lessor	Balance sheet assets (in 000 RSD)	Share in 2009	Cumulat. share in 2009	Position	Lessor	Balance sheet assets (in 000 RSD)	Share in 2010	Cumulative share in 2010	
11.	ЛИПАКС d.o.o. Belgrade	3,847,532	3.5%	91.1%	11.	ЛИПАКС d.o.o. Belgrade	3,530,470	3.6%	89.6%	
12.	Procredit Leasing d.o.o. Belgrade	2,908,537	2.6%	93.7%	12.	Procredit Leasing d.o.o. Belgrade	2,925,445	3.0%	92.6%	
13.	Porsche Leasing SCG d.o.o. Belgrade	2,795,645	2.5%	96.2%	13.	Meridian Leasing d.o.o. Belgrade	2,860,493	2.9%	95.5%	
14.	Meridian Leasing d.o.o. Belgrade	2,087,174	1.9%	98.1%	14.	Porsche Leasing SCG d.o.o. Belgrade	2,385,947	2.4%	97.9%	
15.	Piraeus Leasing d.o.o. Belgrade	1,517,875	1.4%	99.5%	15.	Piraeus Leasing d.o.o. Belgrade	1,442,845	1.5%	99.4%	
16.	Zastava Istrabenz Lizing d.o.o. Belgrade	494,229	0.4%	99.9%	16.	Zastava Istrabenz Lizing d.o.o. Belgrade	554,932	0.5%	99.9%	
17.	OTP Leasing d.o.o. Novi Sad	85,683	0.1%	100.0%	17.	OTP Leasing d.o.o. Novi Sad	86,852	0.1%	100.0%	
TOTAL		111,313,931	100.0%	-	TOTAL		98,834,426	100.0%	-	
Herfindahl-Hirschman index			1,374.6			Herfindahl-Hirschman index			1,288.6	

The HHI of 1,288.6 on 31 December 2010 points to moderate concentration of the Serbian financial leasing market.

As Table 4 shows, the ranking of lessors by market share changed at end-2010 relative to end-2009. The share of the three first lessors declined (49.6%), but remained almost equal to the market share of all other lessors. Hypo Alpe-Adria-Leasing d.o.o. Belgrade retained its leading position, while Raiffeisen Leasing d.o.o. Belgrade and NLB Leasing d.o.o. Belgrade changed places at end-2010 – NLB Leasing d.o.o. Belgrade came second by raising its market share from 9.9% to 10.8% and Raiffeisen Leasing d.o.o. Belgrade was third by lowering its share from 13.4% to 9.8%.

As at 31 December 2010, the most significant ranking and market share changes relative to 2009 were recorded for the following lessors:

- EFG Leasing a.d. Belgrade ranked eighth in 2009 and fifth at end-Q4 2010, with its market share up from 4.5% to 6.2%,
- UniCredit Leasing Srbija d.o.o. Belgrade ranked tenth in 2009 and eighth at end-2010, with its market share up from 3.6% to 4.9%,
- S-Leasing d.o.o. Belgrade ranked fourth in 2009 and ninth at end-Q4 2010, with its market share down from 6.7% to 4.2%.

Profit and loss account

Total profit before tax of all financial lessors turned negative at RSD 868.1 mln in 2010 (it was positive in 2009 at RSD 2,054.0 mln). Ten lessors recorded

profit before tax of RSD 807.3 mln, while seven lessors recorded a negative result of RSD 1,675.4 mln. In the period under review, total expenses rose by 33.1% and total income fell by 3.9%.

Interest income accounted for the major part of total income, with its share declining from 88.6% in 2009 to 70.3% in 2010 (87.4% in 2008). Operating income had a significant share of 11.2% of total income, followed by net income from other interest with 7.9%, net income from valuation changes and effects of the currency clause with 5.2%, and other income and gains with 4.1%.

On the expenses side, net expenses arising from asset value adjustment accounted for the largest share of total expenses – 40.7%, followed by interest expenses arising from leasing operations (down from 34.9% in 2009 to 29.9% in 2010, vs. 58.8% in 2008). Expenses arising from leasing operations accounted for 13.3% of total income, earnings, fees, salaries and other personal expenses for 11.2%, net expenses from valuation changes and effects of the currency clause for 4.7%, and other operating expenses for 2.9%.

Table 5 shows the aggregate profit and loss account of all lessors (in thousand dinars) as at 31 December 2008, 31 December 2009 and 31 December 2010.

Table 5 – Aggregate profit and loss account of lessors

(in RSD thousand)

No	ITEM	1 Jan.-31 Dec.08	% of total income	1 Jan.-31 Dec.09	% of total income	1 Jan.-31 Dec.10	% of total income	% of growth 2009/2008	% of growth 2010/2009
INCOME AND EXPENSES FROM REGULAR OPERATIONS									
OPERATING INCOME AND EXPENSES									
1	Interest income from leasing	8,194,007	87.4	8,627,242	88.6	6,579,349	70.3	5.3	-23.7
2	Interest expenses from leasing	5,506,227	58.8	3,393,615	34.9	2,799,920	29.9	-38.4	-17.5
3	Income from leasing	465,462	5.0	555,625	5.7	1,044,800	11.2	19.4	88.0
4	Expenses from leasing	1,380,724	14.7	1,212,787	12.5	272,992	2.9	-12.2	-77.5
I	BUSINESS RESULT	1,772,518	18.9	4,576,465	47.0	4,551,236	48.6	158.2	-0.6
OTHER INCOME AND EXPENSES									
5	Net income from other interest	0	0.0	0	0.0	736,079	7.9	-	-
6	Net expenses from other interest	73	0.0	1,260	0.0	0	0.0	1,626.0	-100.0
7	Net income from exchange rate differentials and currency clause effects	427,890	4.6	333,988	3.4	489,583	5.2	-21.9	46.6
8	Net expenses from exchange rate differentials and currency clause effects	0	0.0	0	0.0	444,349	4.7	-	-
9	Net income from share in income of related legal entities and joint investment	0	0.0	0	0.0	0	0.0	-	-
10	Net expenses from share in losses of related legal entities and joint investment	7,943	0.1	10,259	0.1	0	0.0	29.2	-100.0
11	Net income from sale and lease	265,908	2.8	190,693	2.0	94,508	1.0	-28.3	-50.4
12	Net losses from sale and lease	0	0.0	0	0.0	257,935	2.8	-	-

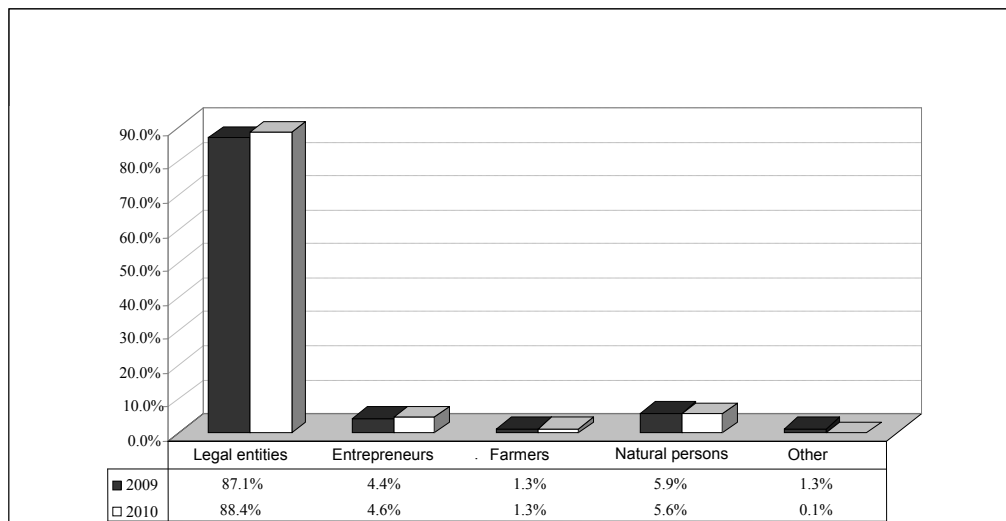
No	ITEM	1 Jan.-31 Dec.08	% of total incom e	1 Jan.-31 Dec.09	% of total incom e	1 Jan.-31 Dec.10	% of total incom e	% of growth 2009/ 2008	% of growth 2010/ 2009
13	Earnings, fees, salaries and other personal expenses	858,185	9.2	969,622	10.0	1,045,085	11.2	13.0	7.8
14	Depreciation and provisioning	394,366	4.2	228,992	2.4	154,875	1.7	-41.9	-32.4
15	Other operating expenses	81,176	0.9	63,725	0.7	1,243,422	13.3	-21.5	1,851.2
16	Net income from sale of intangible investment, property, plant, equipment and other assets	14,284	0.2	18,421	0.2	27,616	0.3	29.0	49.9
17	Net loss from sale of intangible investment, property, plant, equipment and other assets	0	0.0	0	0.0	744	0.0	-	-
18	Net income from sale of share in capital and securities	75	0.0	0	0.0	0	0.0	-100.0	-
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	658,973	7.0	1,769,605	18.2	3,811,858	40.7	168.5	115.4
22	Other income and gains	2,519	0.0	9,486	0.1	385,768	4.1	276.6	3,966.7
23	Other expenses and losses	6,325	0.1	31,597	0.3	194,886	2.1	399.6	516.8
II	REGULAR OPERATING RESULT	476,153	5.1	2,053,993	21.1	-868,364	-9.3	331.4	-142.3
24	NET GAIN FROM DISCONTINUED OPERATIONS	0	0.0	0	0.0	319	0.0	-	-
25	NET LOSS FROM DISCONTINUED OPERATIONS	0	0.0	0	0.0	14	0.0	-	-
III	PRE-TAX RESULT	476,153	5.1	2,053,993	21.1	-868,059	-9.3	331.4	-142.3
26	PROFIT TAX								-
26.1	1. Tax expense of the period	156,489	1.7	218,407	2.2	221,347	2.4	39.6	1.3
26.2	2. Deferred tax expenses of the period	15,172	0.2	7,201	0.1	19,706	0.2	-52.5	173.7
26.3	3. Deferred tax income of the period	22,797	0.2	23,659	0.2	117,902	1.3	3.8	398.3
27	Paid personal income to employer	0	0.0	0	0.0	0	0.0	-	-
IV	NET RESULTS	327,289	3.5	1,852,044	19.0	-991,210	-10.6	465.9	-153.5
V	TOTAL INCOME	9,370,145	100.0	9,735,455	100.0	9,358,021	100.0	3.9	-3.9
VI	TOTAL EXPENSES	8,893,992	94.9	7,681,462	78.9	10,226,080	109.3	-13.6	33.1

Structure of investments and asset quality

Lessees

The structure of investments by lessee (Chart 3) remained broadly unchanged in 2010 relative to 2009.

Chart 3 – Investment structure by lessee

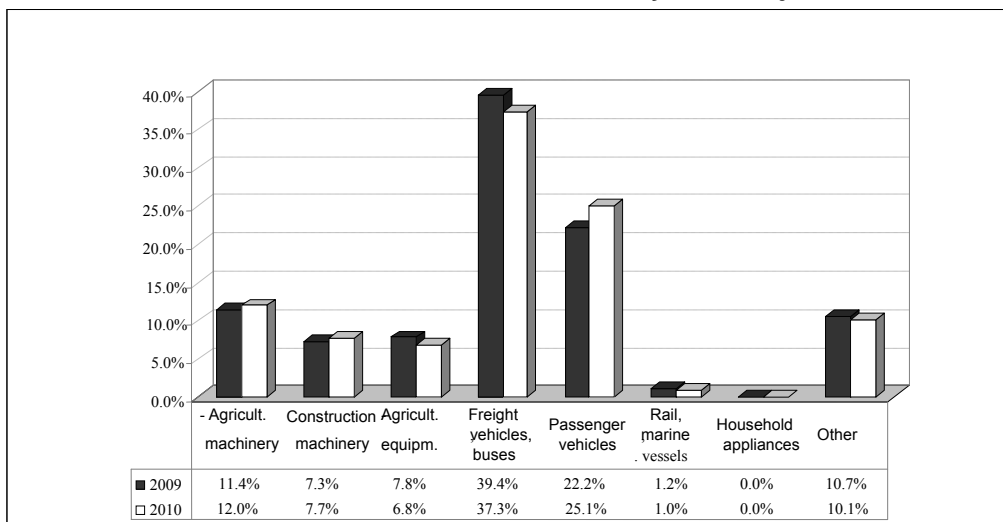


Most financial lease investments were granted to legal entities (88.4%), while private individuals and entrepreneurs accounted for 5.6% and 4.6% respectively.

Object of financing

At end-2010 (like at end-2009), the financing of freight vehicles, minibuses and buses had a high share of 37.3% (39.4% in 2009) in the structure of investment by lease object (Chart 4). Relative to 2009, the share of financing of passenger vehicles rose from 22.2% to 25.1%, the share of financing of production machinery rose as well – from 11.4% to 12.0%, while the share of financing of agricultural machinery (from 7.8% to 6.8%), construction machinery (from 7.3% to 7.7%) and other types of lease objects (from 10.7% to 10.1%) declined.

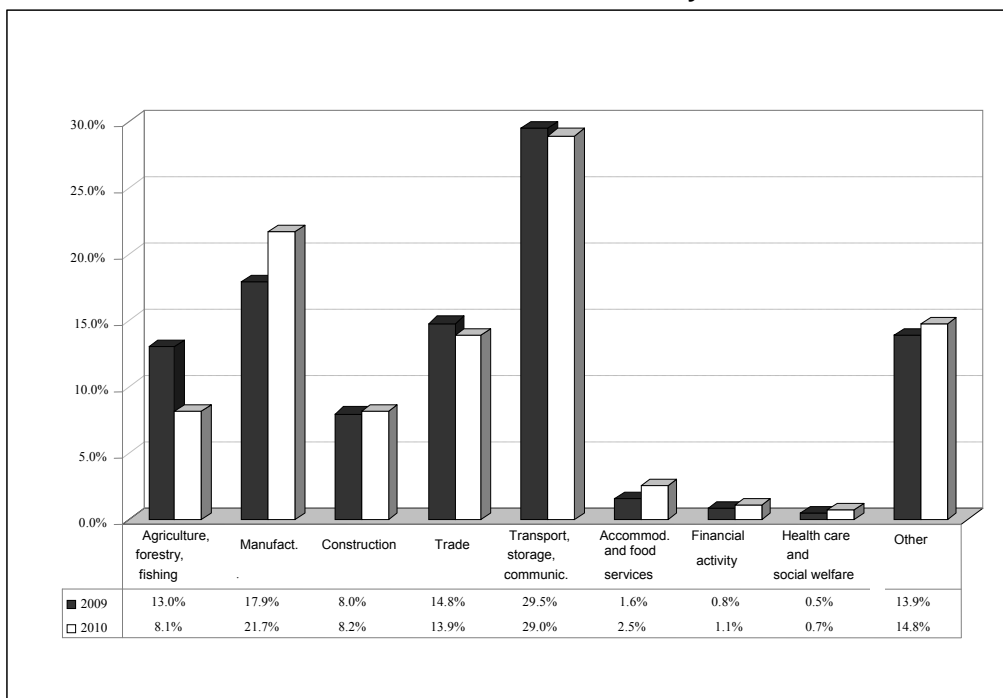
Chart 4 – Investment structure by lease object



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 was that of transport, storage and communications (29.0% vs. 29.5% in 2009), followed by manufacturing with mining and water supply (21.7% vs. 17.9%), other sectors (L, M, N, O, P, R, S, T and U – with

14.8% vs. 13.9%), and trade (13.9% vs. 14.8%). The share of agriculture, forestry and fishing declined from 13.0% to 8.1%.

Asset quality

On 31 December 2010, the value of the financial leasing market portfolio was RSD 73.9 bln, down by 11.5% relative to end-2009 (RSD 83.5 bln). Past due receivables made up 76.3% of capital (42.9% in 2009), while at the same time accounting for 8.4% of total portfolio (4.6% in 2009). Receivables past due more than 30 days accounted for 16.3% of total past due receivables, while receivables past due more than 90 days accounted for 68.4%. The share of allowances for impairment of receivables in total receivables rose from 4.4% to 8.4%.

In 2010, the value of returned lease objects was RSD 4.5 bln, which, together with outstanding balances from previous years, came to RSD 6.0 bln or 8.1% of the portfolio and 74.1% of capital. At end-2009, these figures came to 3.6% of the portfolio and 34.0% of capital. Of the above value of the returned lease objects, lessors re-leased 32.4%, sold 34.2%, while over 20.7% remained unemployed. At end-2010, the stock of returned lease objects came to RSD 1.2 bln or 1.7% of the portfolio and 15.3% of capital (at end-2009, the stock of returned lease objects came to 1.8% of the portfolio and 16.8% of capital).

Performance indicators

Table 6 shows performance indicators for financial leasing providers.

The profitability of financial lessors turned negative at end-2010 relative to end-2009 due to a drop in net profit before tax (as indicated by negative ROA and ROE).

Both lending and deposit rates decreased relative to 2009, as did the net interest margin.

As equity declined less than debt, solvency improved marginally in the financial leasing market. This is supported by the fact that total debt and long-term debt were 11.17 and 10.92 times higher than equity respectively.

Table 6 – Performance indicators

PERFORMANCE INDICATORS	31/12/2009	31/12/2010
Return on assets (ROA)	1.76%	-0.83%
Return on equity (ROE)	27.08%	-10.17%
Net interest margin	5.84%	5.74%
Average lending rate	9.63%	9.36%
Average deposit rate	3.17%	3.01%
Coverage of interest expenses	1.61x	0.70x
Operating expenses to average investment	2.92%	3.10%
Total debt to equity	11.44x	11.17x
Long-term debt to equity	11.22x	10.92x

Sources of financing and reserve balances

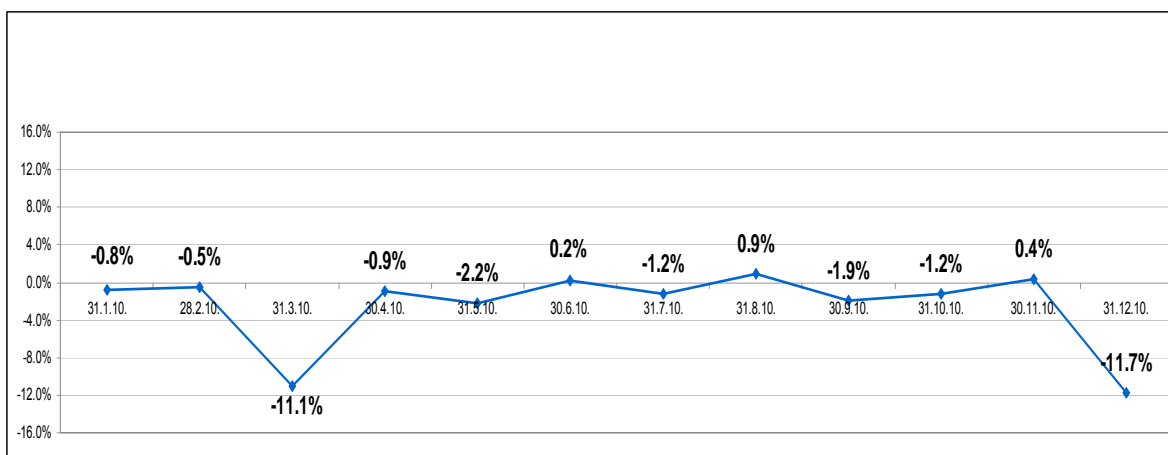
The balance sheet structure indicates that the largest portion of financial lease investment was financed from foreign borrowing – as at 31 December 2010, foreign credit obligations made up 86.0% of total liabilities, while financial lease investment accounted for 74.8% of total assets. The share of long-term domestic credits declined relative to 2009 from 3.8% to 3.6% of total liabilities, while the share of short-term domestic credits rose from 0.2% to 0.3%. 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 31 December 2010 (against which allocation was made on 18 January 2011) increased 11.6 times relative to the reserving base as at 31 January 2006 (against which the first calculation and allocation were made on 10 February 2006) to reach EUR 619.1 mln. The above reserving base was equal to 77.3% of total credits used and/or received from abroad by leasing providers.

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 governments. In that regard, on 31 December 2010, the calculation of reserve balances was not made in regard to EUR 72.4 mln or 9.1% of foreign credits disbursed and/or received by leasing providers.

Chart 6 shows changes in the reserving base relative to the previous month in the course of 2010.

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



As of 17 September 2010, the reserving base was reduced from 20% to 15%, and to 10% as of 17 December 2010, which impacted on the reduction in total allocated reserve balances.

Changes in total reserves allocated by leasing providers in the course of 2010 (in EUR thousand) are illustrated in Chart 7 below.

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

