



NATIONAL BANK OF SERBIA
BANK SUPERVISION DEPARTMENT
DIVISION FOR FINANCIAL LEASING SUPERVISION

Financial Leasing Supervision

Report for Q3 2007

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Market Participants

Number of lessors

On 30 September 2007, the following lessors were licensed to perform financial leasing operations:

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

In the course of Q3, two financial leasing companies were granted operating licenses by the National Bank of Serbia: Meridian Leasing d.o.o. Beograd and Piraeus Leasing d.o.o. Beograd, while KB Leasing d.o.o. Novi Sad changed name to OTP Leasing d.o.o. Novi Sad.

Total number of employees in the financial leasing sector climbed, just as total assets per employee. On 30 September 2007, average assets per employee stood at RSD 163,824 thousand, up by 9.3% relative to 31 December 2006 (RSD 149,881 thousand). Average number of employees per leasing company was 26.6, which is more than at end-2006 (25.9). The number of employees by leasing company ranges from 4 to 29 persons. Table below shows total number of employees in the financial leasing sector at end-2005, end-2006 and end-September 2007:

Table 1 – Number of employees in the financial leasing sector

Date	Number of employees
31 December 2005	329
31 December 2006	388
30 September 2007	452

Ownership structure

Domestic vs. foreign ownership

- 10 leasing companies are in 100% or majority ownership of foreign legal entities;
- 6 leasing companies are in 100% or majority ownership of domestic entities (of which 5 are owned by domestic banks with foreign capital);
- 1 leasing company is in the ownership of a domestic bank with foreign capital and foreign legal entity, each participating with a 50% share in the leasing company's capital.

Financial vs. non-financial sector

- Two financial leasing companies (LIPAKS d.o.o. Beograd and Zastava Istrabenz Lizing d.o.o. Beograd) were founded by non-financial sector entities. Porsche Leasing SCG d.o.o. Beograd may also be classified in the group of non-financial sector entities as it was founded by a Porsche Group member – bank specialized in financing Porsche Group products.
- The 14 remaining leasing companies were set up by banks, banking group members or other financial institutions.

Table below gives an overview of the ownership structure of financial leasing companies.

Table 2 – Ownership structure of financial leasing companies

No.	Leasing company	Owner	Ownership percentage
1	UniCredit Leasing Srbija d.o.o. Beograd	Bank Austria Creditanstalt Leasing GmbH, Wien, Austria	100%
2	Hypo Alpe-Adria-Leasing d.o.o. Beograd	Hypo-Alpe-Adria-Leasing Holding AG, Klagenfurt, Austria	100%
3	Intesa Leasing d.o.o. Beograd	Banka Intesa a.d. Beograd CIB Leasing, Budapest, Hungary	51% 49%
4	OTP Leasing d.o.o. Novi Sad	OTP banka Srbija a.d. Novi Sad	100%
5	LIPAKS d.o.o. Beograd	Mirko Žeželj	24.96%
		Zoran Tanasić	24.96%
		"Industrija mašina i traktora " AD Beograd in restructuring	9.52%
		Industry of agricultural machinery "Zmaj" AD Zemun – Beograd in restructuring	9.52%
		Corporation "Fabrika automobila Priboj" AD, Priboj	9.52%
		Joint stock company "Ikarbus", Beograd-Zemun	4.76%
		Joint stock company for specialized and multipurpose vehicles production and trade "Zastava specijalni automobili", Sombor	4.76%
		"Zastava kamioni" d.o.o, Kragujevac	4.76%
		Sandra Džodić	4.33%
		"Neobus" Novosadska fabrika autobusa AD, Novi Sad	1.91%
		Goran Milaš and	0.67%
		Milorad Milić	0.33%
6	NLB Leasing d.o.o. Beograd	NLB Leasing DOO, Ljubljana, Slovenia	100%
7	Porsche Leasing SCG d.o.o. Beograd	Porsche Bank AG, Salzburg, Austria	100%
8	Procredit Leasing d.o.o. Beograd	ProCredit Bank a.d. Beograd	100%
9	Raiffeisen Leasing d.o.o. Beograd	Raiffeisenbank a.d. Beograd Raiffeisen - Leasing International GmbH, Wien, Austria	50% 50%
10	S-Leasing d.o.o. Beograd	Steiermarkische Bank und Sparkassen Aktiengesellschaft, Graz, Austria	50%
		Immorent International Holding GmbH, Wien, Austria	50%

No.	Leasing company	Owner	Ownership percentage
11	Sogelease Srbija d.o.o. Beograd	Societe Generale Yugoslav Bank a.d. Beograd	100%
12	NBG Lizing d.o.o. Beograd	National bank of Greece s.a. Athens, Greece	100%
13	VB Leasing d.o.o. Beograd	VB-Leasing International Holding GmbH, Wien, Austria	51%
		Volksbank a.d. Beograd	49%
14	Zastava Istrabenz Lizing d.o.o. Beograd	Istrabenz D.D. Koper, Slovenia	95.2%
		AD Grupa Zastava vozila, Kragujevac	4.8%
15	EFG Leasing a.d. Beograd	EFG New Europe Holding b.v, Amsterdam, Netherlands	48.63%
		EFG Eurobank a.d. Beograd	25.56%
		EFG Eurobank Ergasias s.a, Athens, Greece	25.81%
16	Meridian Leasing d.o.o. Beograd	Meridian Bank Credit Agricole Group a.d. Novi Sad	100%
17	Piraeus Leasing d.o.o. Beograd	Piraeus Bank s.a. Athens, Greece	100%

Balance Sheet Structure

Balance sheet

On 30 September 2007, total financial leasing sector balance sheet assets stood at RSD 89 billion. In the first three quarters of 2007, total balance sheet assets of the sector went up by 31.4% (from RSD 67.7 billion as at 31 December 2006 to RSD 89 billion as at 30 September 2007). Claims in respect of financial leasing accounted for 81.8% of total balance sheet assets, which is actually less than in the preceding two years (91.3% in 2005 and 85.6% in 2006). The reason behind this decline is the increase of cash in total balance sheet assets to 11.7% (2.2% in 2005 and 9.1% in 2006), that came as a consequence of the introduction of mandatory allocation of reserves against credit, other loans and supplementary payments from abroad (excluding payments with respect to increasing share capital). On 30 September, reserve balances accounted for as much as 78.7% of *cash and cash equivalents*.

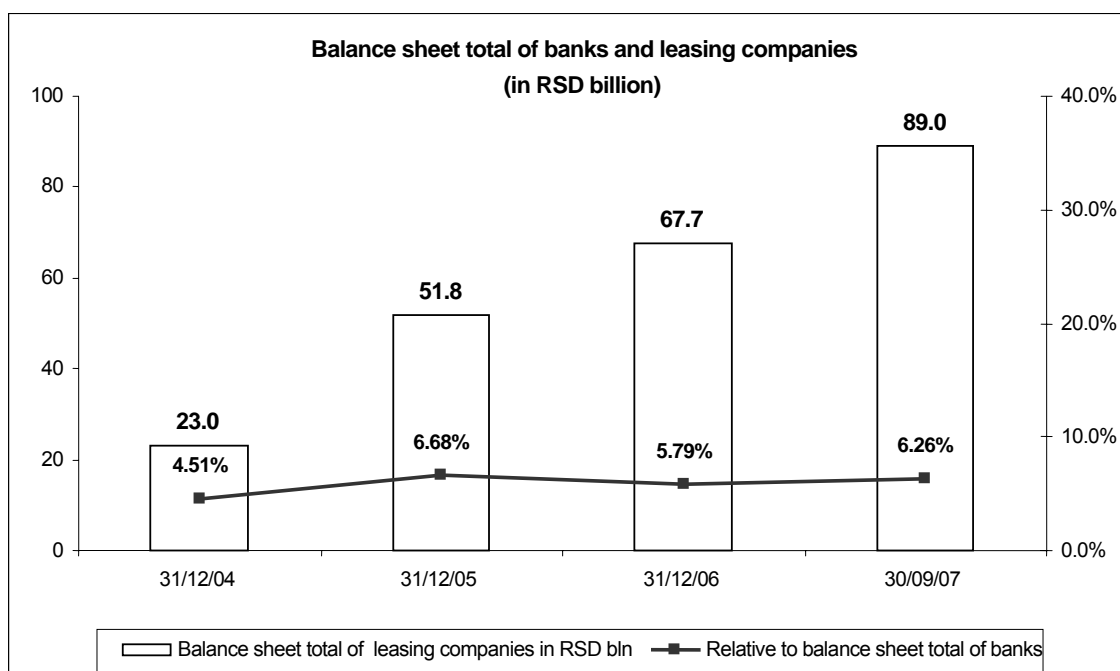
Long-term obligations accounted for the most significant share of lessor liabilities - 88.5% (88.4% in 2005 and 90.1% in 2006), of which foreign credit – 84.4% (83.2% in 2005 and 83.6% in 2006) and domestic credit – 3.9% (4.8% in 2005 and 6.3% in 2006). Short-term obligations participated with 4.9% in total liabilities (7.2% in 2005 and 3.7% in 2006), with domestic credit accounting for 0.5% (4.5% in 2005 and 1% in 2006), and foreign credit for 1.8%. The 37.2% growth in capital in the first three quarters of the year relative to 2006 resulted in the increase of its share in total liabilities from 5.8% in 2006 to 6% (vs. 4.2% in 2005). The largest portion of capital refers to share capital (47%) and retained earnings (38.2%). During the first nine months of 2007, share capital and retained earnings rose by 32.5% and 23.3%, respectively.

Table below shows aggregate balance sheet of all leasing companies (in thousand dinars) as at 31 December 2005, 31 December 2006 and 30 September 2007.

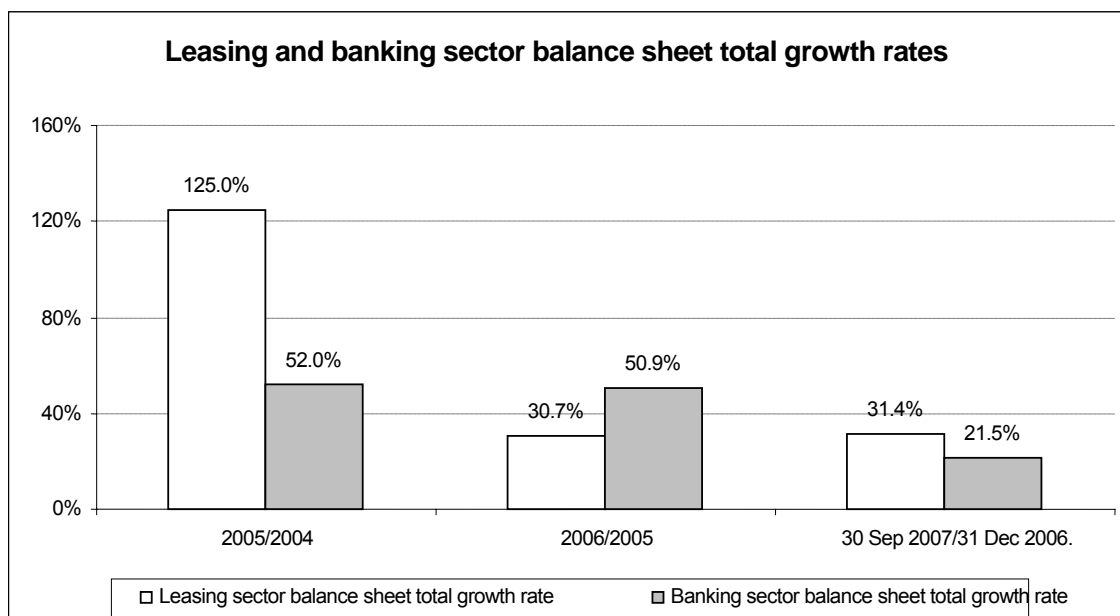
Table 3 – Aggregate financial leasing sector balance sheet (in RSD 000)

No.	ITEM	31/12/2005		31/12/2006		30/09/2007		% of growth	
		amount	%	amount	%	amount	%	31/12/06/ 31/12/05	30/09/07/ 31/12/06
	ASSETS	51,788,344	100.0%	67,702,703	100.0%	88,968,177	100.0%	30.7%	31.4%
1	FIXED ASSETS	48,686,970	94.0%	59,417,517	87.8%	75,019,976	84.3%	22.0%	26.3%
1.1	Property, plant and equipment	1,368,676	2.6%	1,309,297	1.9%	1,250,220	1.4%	-4.3%	-4.5%
1.2	Claims under financial leasing	47,275,973	91.3%	57,958,183	85.6%	72,733,495	81.8%	22.6%	25.5%
1.3	Other long-term financial investments	2,361	0.0%	90,232	0.1%	978,466	1.1%	3721.8%	984.4%
1.4	Other fixed assets	39,960	0.1%	59,805	0.1%	57,795	0.1%	49.7%	-3.4%
2	CURRENT ASSETS	3,101,374	6.0%	8,285,186	12.2%	13,948,201	15.7%	167.1%	68.4%
2.1	Cash and cash equivalents	1,115,554	2.2%	6,164,135	9.1%	10,434,106	11.7%	452.6%	69.3%
2.2	Short-term financial investment and claims	684,409	1.3%	596,401	0.9%	660,021	0.7%	-12.9%	10.7%
2.3	Other current assets	1,301,411	2.5%	1,524,650	2.3%	2,854,074	3.2%	17.2%	87.2%
	LIABILITIES	51,788,344	100.0%	67,702,703	100.0%	88,968,177	100.0%	30.7%	31.4%
1	CAPITAL	2,178,835	4.2%	3,910,832	5.8%	5,367,390	6.0%	79.5%	37.2%
1.1	Share capital	922,534	1.8%	1,904,609	2.8%	2,523,685	2.8%	106.5%	32.5%
1.2	Subscribed uncalled capital	0	0.0%	0	0.0%	0	0.0%	-	-
1.3	Reserves	297,718	0.6%	779,426	1.2%	1,281,114	1.4%	161.8%	64.4%
1.4	Revaluation reserves	0	0.0%	0	0.0%	0	0.0%	-	-
1.5	Retained earnings	1,164,764	2.2%	1,661,771	2.5%	2,049,239	2.3%	42.7%	23.3%
1.6	Losses	206,181	0.4%	434,974	0.6%	486,648	0.5%	111.0%	11.9%
1.7	Purchased own shares	0	0.0%	0	0.0%	0	0.0%	-	-
2	DEBT, PROVISIONING AND OBLIGATIONS	45,871,865	88.6%	61,320,533	90.5%	79,247,406	89.1%	33.7%	29.2%
2.1	Long-term provisions	71,593	0.1%	291,916	0.4%	469,891	0.5%	307.7%	61.0%
2.2	Long-term obligations	45,800,272	88.4%	61,028,617	90.1%	78,777,515	88.5%	33.2%	29.1%
2.2.1	Long-term domestic credit	2,478,811	4.8%	4,292,567	6.3%	11,738,871	13.2%	73.2%	173.5%
2.2.2	Long-term foreign credit	43,105,703	83.2%	56,587,279	83.6%	66,846,713	75.1%	31.3%	18.1%
2.2.3	Other long-term obligations	215,758	0.4%	148,771	0.2%	191,931	0.2%	-31.0%	29.0%
3	SHORT-TERM OBLIGATIONS	3,737,644	7.2%	2,471,338	3.7%	4,353,381	4.9%	-33.9%	76.2%
3.1	Short-term financial obligations	2,309,176	4.5%	647,589	1.0%	2,051,686	2.3%	-72.0%	216.8%
3.1.1	Short-term domestic credit	2,309,176	4.5%	646,327	1.0%	433,480	0.5%	-72.0%	-32.9%
3.1.2	Short-term foreign credit	0	0.0%	0	0.0%	1,608,756	1.8%	-	-
3.1.3	Other short-term financial obligations	0	0.0%	1,262	0.0%	9,450	0.0%	-	648.8%
3.2	Other	1,428,468	2.8%	1,823,749	2.7%	2,301,695	2.6%	27.7%	26.2%

As at 30 September 2007, the ratio of leasing sector to banking sector balance sheet total equaled 6.26%. Although this ratio declined in 2006 relative to end-2005, in the first three quarters of 2007 it picked up mildly, as illustrated by the chart below.



From end-2006 to end-September 2007, leasing sector balance sheet total rose by 31.4%, while banking sector balance sheet total went up by 21.5%. As a result, the ratio of leasing sector to banking sector balance sheet total changed. The following chart shows balance sheet total growth rates for both leasing and banking sector.



Market share

With a view to monitoring the structure of financial leasing market and the level of lessor competition, in addition to individual and cumulative market share according to the level of balance sheet total, we have also calculated the Herfindahl-Hirschman index (HHI).

Table 4 – Market share of leasing companies

Position	Leasing company	Balance sheet assets (in RSD 000)	Share in 2006	Cumulative share 2006	Position	Leasing company	Balance sheet assets (in RSD 000)	Share in 2007	Cumulative share 2007
1	Hypo Alpe-Adria-Leasing d.o.o. Beograd	20,073,993	29.7%	29.7%	1	Hypo Alpe-Adria-Leasing d.o.o. Beograd	26,746,440	30.1%	30.1%
2	Raiffeisen Leasing d.o.o. Beograd	14,379,441	21.2%	50.9%	2	Raiffeisen Leasing d.o.o. Beograd	16,272,330	18.3%	48.4%
3	S-Leasing d.o.o. Beograd	8,480,266	12.5%	63.4%	3	NLB Leasing d.o.o. Beograd	9,248,673	10.4%	58.8%
4	NLB Leasing d.o.o. Beograd	5,058,496	7.5%	70.9%	4	S-Leasing d.o.o. Beograd	9,175,396	10.3%	69.1%
5	Porsche Leasing SCG d.o.o. Beograd	3,917,088	5.8%	76.7%	5	UniCredit Leasing Srbija d.o.o. Beograd	5,344,100	6.0%	75.1%
6	HVB Leasing d.o.o. Beograd	3,875,323	5.7%	82.4%	6	VB Leasing d.o.o. Beograd	5,261,967	5.9%	81.0%
7	VB Leasing d.o.o. Beograd	3,839,244	5.7%	88.1%	7	Porsche Leasing SCG d.o.o. Beograd	4,046,924	4.5%	85.5%
8	LIPAKS d.o.o. Beograd	2,964,521	4.4%	92.5%	8	LIPAKS d.o.o. Beograd	3,170,914	3.6%	89.1%
9	Intesa Leasing d.o.o. Beograd	1,427,641	2.1%	94.6%	9	Intesa Leasing d.o.o. Beograd	2,952,264	3.3%	92.4%
10	Procredit Leasing d.o.o. Beograd	1,376,487	2.0%	96.6%	10	Procredit Leasing d.o.o. Beograd	1,821,860	2.0%	94.4%
11	TBI Lizing d.o.o. Beograd	640,483	1.0%	97.6%	11	Sogelease Srbija d.o.o. Beograd	1,494,278	1.7%	96.1%
12	Sogelease Srbija d.o.o. Beograd	631,937	0.9%	98.5%	12	EFG Leasing a.d. Beograd	1,451,973	1.6%	97.7%
13	Zastava Istrabenz Lizing d.o.o. Beograd	561,301	0.8%	99.3%	13	NBG Lizing d.o.o. Beograd	1,041,437	1.2%	98.9%
14	EFG Leasing a.d. Beograd	348,736	0.5%	99.8%	14	Zastava Istrabenz Lizing d.o.o. Beograd	572,062	0.7%	99.6%
15	KB Leasing d.o.o. Novi Sad	127,746	0.2%	100.0%	15	Piraeus Leasing d.o.o. Beograd	181,807	0.2%	99.8%
					16	OTP Leasing d.o.o. Novi Sad	108,036	0.1%	99.9%
					17	Meridian Leasing d.o.o. Beograd	77,716	0.1%	100.0%
TOTAL		67,702,703	100.0%	-	TOTAL		88,968,177	100.0%	-
Herfindahl-Hirschman index			1,671.9		Herfindahl-Hirschman index			1,579.7	

As shown in Table 4, only two leasing companies (Hypo Alpe-Adria-Leasing d.o.o. Beograd and Raiffeisen Leasing d.o.o. Beograd) have retained their leading positions in 2007. By increasing its market share from 7.5% in 2006 to 10.4% as at 30 September 2007, NLB Leasing d.o.o. Beograd came out third, while S-Leasing d.o.o. Beograd came out fourth due to a decline in its market share from 12.5% to 10.3%.

Serbian financial leasing market may be classified in the category of moderately concentrated ones. The level of competition in the leasing market steadily increases as indicated by the Herfindahl Hirschman index which fell from 1,671.9 in 2006 to 1,579.7 in the first three quarters of 2007. In 2005, Herfindahl Hirschman index equaled as much as 1,859.1.

The following leasing companies have experienced the most significant changes in their market positions:

- Porsche Leasing SCG d.o.o. Beograd, which fell from the 5th place in 2006 to the 7th place in the first three quarters of 2007, with a decline in market share from 5.8% to 4.5%,
- NBG Lizing d.o.o. Beograd (TBI Lizing d.o.o. Beograd), which fell from the 11th place in 2006 to the 13th place in the first three quarters of 2007 despite increased market share (from 1.0% to 1.2%),
- EFG Leasing a.d. Beograd, which moved from the 14th place in 2006 to the 12th place in the first three quarters of 2007, with a rise in market share from 0.5% to 1.6%.

Profit and loss account

Total profit before tax recorded at the level of financial leasing market in the first three quarters of 2007 came to RSD 960,586 thousand, up by 37.2% (year-on-year) compared to 2006 when it stood at RSD 933,199 thousand.

The most significant category within lessor income were exchange rate gains – 53.6% (56.6% in 2005 and 61.4% in 2006). Interest income accounted for 38.5% (27.9% in 2005 and 33.2% in 2006), and operating income for 4.0% (5.6% in 2005 and 3.7% in 2006) of overall income.

Exchange rate losses provided the largest input to total expenses – 57.6% (66.9% in 2005 and 66.7% in 2006). The remaining portion of expenses was accounted for by interest expenses – 23.1% (13.1% in 2005 and 16.8% in 2006) and operating expenses – 15.3% (13.5% in 2005 and 13.9% in 2006).

At annual level, total income rose by 1.2%, whereas expenses declined by 1% relative to the year before. As a result, the share of net profit before tax in total income increased from 5.8% in 2006 to 7.9% in the first three quarters of 2007.

Table below shows aggregate profit and loss account of leasing companies (in thousand dinars) as at 31 December 2005, 31 December 2006 and 30 September 2007.

Table 5 – Aggregate profit and loss account of leasing companies (in RSD 000)

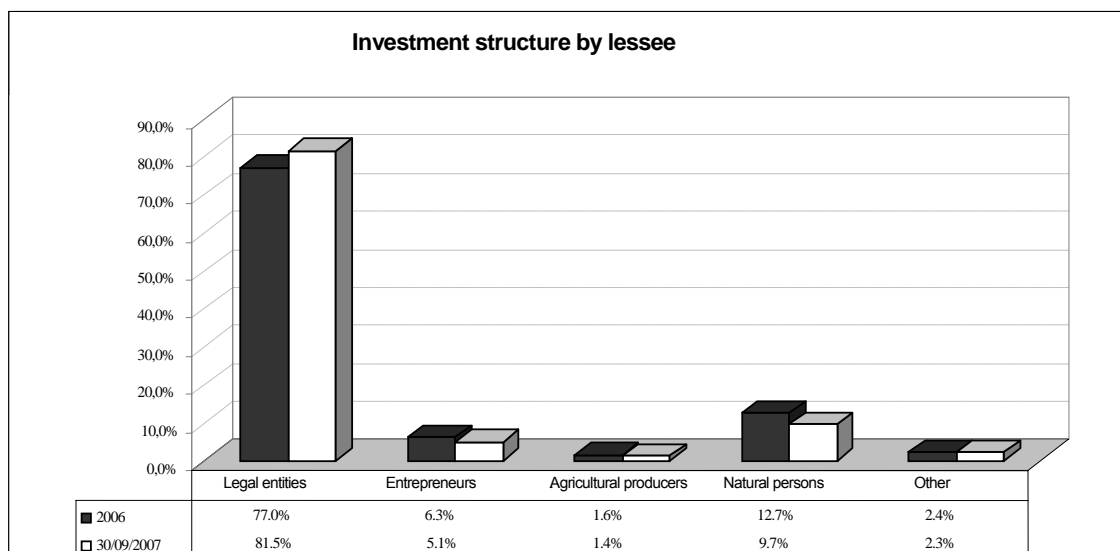
No.	ITEM	01/01- 31/12/05	% of total income	01/01- 31/12/06	% of total income	01/01- 30/09/07	% of total income	% of growth 2006/ 2005	% of growth 30/09/07/ 31/12/06 (p.a.)
	OPERATING INCOME	635,591	5.6%	586,586	3.7%	485,100	4.0%	-7.7%	10.3%
1	Net sales income	456,264	4.0%	307,076	1.9%	290,180	2.4%	-32.7%	26.0%
2	Other operating income	179,327	1.6%	279,510	1.7%	194,920	1.6%	55.9%	-7.0%
	OPERATING EXPENSES	1,388,604	12.3%	2,099,039	13.1%	1,715,300	14.1%	51.2%	9.0%
3	Earnings, fees, salaries and other personal expenses	364,223	3.2%	536,672	3.4%	441,063	3.6%	47.3%	9.6%
4	Depreciation and provisioning	214,938	1.9%	463,178	2.9%	382,378	3.1%	115.5%	10.1%
5	Other operating expenses	809,443	7.2%	1,099,189	6.9%	891,859	7.3%	35.8%	8.2%
I	OPERATING RESULT	(753,013)	-6.7%	(1,512,453)	-9.4%	(1,230,200)	-10.1%	100.9%	8.5%

No.	ITEM	01/01-31/12/05	% of total income	01/01-31/12/06	% of total income	01/01-30/09/07	% of total income	% of growth 2006/2005	% of growth 30/09/07/31/12/06 (p.a.)
	FINANCIAL INCOME	9,585,161	85.0%	15,179,013	94.8%	11,235,338	92.4%	58.4%	-1.3%
6	Interest income	3,143,739	27.9%	5,312,294	33.2%	4,679,674	38.5%	69.0%	17.5%
7	Exchange rate gains	6,389,289	56.6%	9,825,021	61.4%	6,516,565	53.6%	53.8%	-11.6%
8	Other	52,133	0.5%	41,698	0.3%	39,099	0.3%	-20.0%	25.0%
	FINANCIAL EXPENSES	8,260,602	73.2%	12,616,849	78.8%	9,054,212	74.5%	52.7%	-4.3%
9	Interest expenses	1,348,341	12.0%	2,539,633	15.9%	2,586,974	21.3%	88.4%	35.8%
10	Exchange rate losses	6,889,912	61.1%	10,053,966	62.8%	6,446,615	53.0%	45.9%	-14.5%
11	Other	22,349	0.2%	23,250	0.1%	20,623	0.2%	4.0%	18.3%
II	FINANCIAL RESULT	1,324,559	11.7%	2,562,164	16.0%	2,181,126	17.9%	93.4%	13.5%
12	Other income	1,062,000	9.4%	247,879	1.5%	435,207	3.6%	-76.7%	134.1%
13	Other expenses	653,623	5.8%	364,917	2.3%	425,315	3.5%	-44.2%	55.4%
III	REGULAR OPERATING RESULT	979,923	8.7%	932,673	5.8%	960,818	7.9%	-4.8%	37.4%
14	Extraordinary income	0	0.0%	871	0.0%	0	0.0%	-	-100.0%
15	Extraordinary expenses	0	0.0%	345	0.0%	232	0.0%	-	-10.3%
IV	RESULT WITH RESPECT TO EXTRAORDINARY ITEMS	0	0.0%	526	0.0%	(232)	0.0%	-	-158.8%
V	PRE-TAX RESULT	979,923	8.7%	933,199	5.8%	960,586	7.9%	-4.8%	37.2%
16	Income tax	51,178	0.5%	74,280	0.5%	32,351	0.3%	45.1%	-41.9%
VI	NET RESULT (V-16)	928,745	8.2%	910,766	5.7%	928,110	7.6%	-1.9%	35.9%
	Income/expenses from deferred tax liabilities/funds			51847		(125)			
	TOTAL INCOME	11,282,752	100.0%	16,014,349	100.0%	12,155,645	100.0%	41.9%	1.2%
	TOTAL EXPENSES	10,302,829	91.3%	15,081,150	94.2%	11,195,059	92.1%	46.4%	-1.0%

Structure of Investments

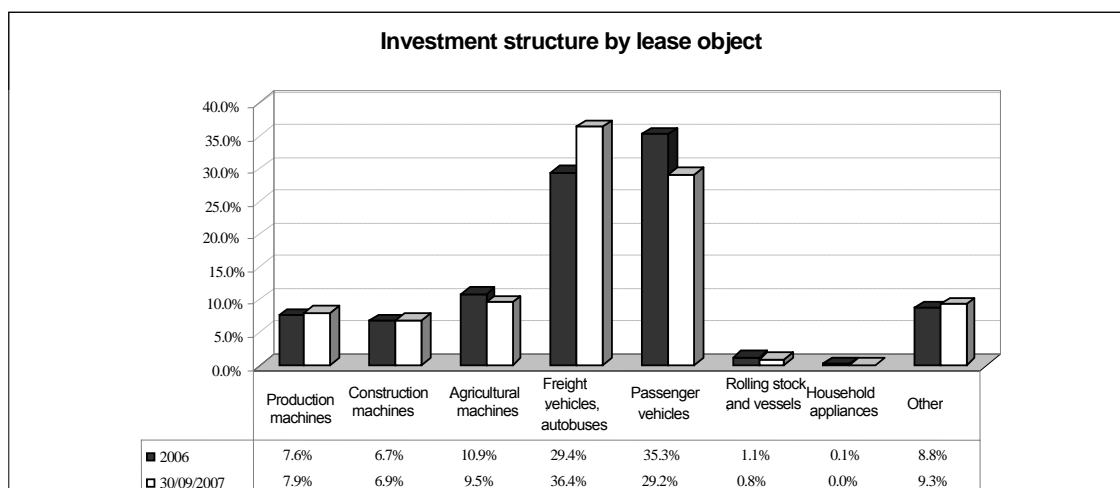
Lessees

The structure of investment by lessee remained broadly unchanged from 2006 – the largest portion of financial leasing was approved to legal entities (81.5%), while natural persons accounted for 9.7% of total investments. It is important to note that the share of legal entities is on a constant rise, mainly at the cost of declining share of natural persons.



Object of financing

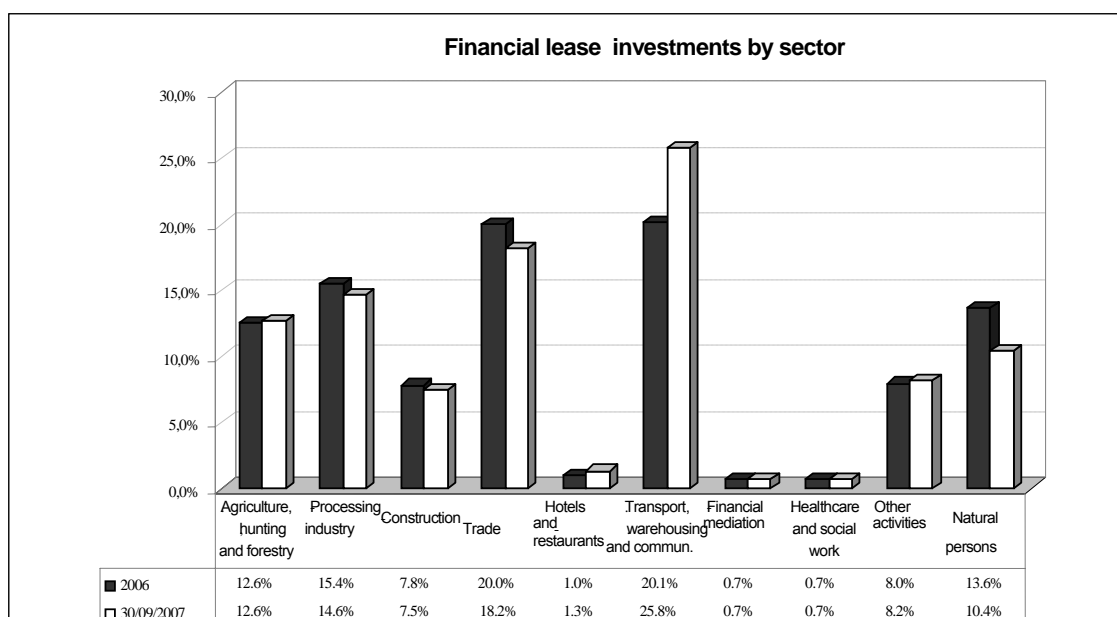
The structure of leasing investments by the lease object has changed from 2006 in that the share of investments approved for financing freight vehicles, minibuses and autobuses rose to 36.4% (29.4% in 2006), while the share of investments approved for financing passenger vehicles declined from 35.3% to 29.2%. Agricultural machinery also accounted for a significant portion of financial leasing investments (9.5%).



Sectoral breakdown

Sectoral structure of financial lease investments suffered no major changes relative to 2006. The most significant share belongs to transport, warehousing and communications (25.8%), followed by trade (18.2%), processing industry (14.6%), agriculture, hunting and forestry (12.6%) and natural persons (11.4%). The difference in data for natural persons compared to the structure of investment by lessee is

due to the fact that a part of entrepreneurs were not classified according to their core activity, and were classified as natural persons instead.



Performance Indicators

For the purposes of financial leasing market analysis, performance indicators were calculated in two ways. Table 6 shows average values of performance indicators calculated for individual leasing companies based on data presented in the LBS and LBU forms, while Table 7 shows aggregate performance indicators.

As suggested by the increase in return on average assets, situation in the financial leasing market has significantly improved compared to 2006. As growth in equity in absolute terms exceeded growth in pre-tax result, return on average equity recorded a decline.

Stronger competition among lessors has led to a decline in average lending rate relative to 2006, while average deposit rate recorded a minimal increase and thus induced a decline in net interest margin.

Although solvency risk exposure subsided compared to 2006, it still remains very high. Total debt is 15.58 times higher than equity, while long-term debt is 14.76 times higher than equity. Unfavourable trends are also reflected in the fact that the share of long-term debt in total liabilities declines, whereas short-term debt goes up.

Operating expenses to average investments also declined in the first three quarters of 2007, which points to increased efficiency in the financial leasing sector.

Table 6 – Performance indicators – market average

Performance indicator	31/ 12/ 2006			30/ 09/ 2007		
	Market average	Min.	Max.	Market average	Min.	Max.
Return on average assets (ROA)	-0.7%	-15.4%	3.6%	0.3%	-3.1%	5.2%
Return on average equity (ROE)*	11.4%	-67.9%	110.5%	7.5%	-64.3%	51.0%
Net interest margin	4.5%	0.1%	7.3%	3.7%	1.1%	6.3%
Average lending rate	10.3%	5.0%	15.6%	9.8%	5.4%	15.2%
Average deposit rate**	5.8%	0.6%	9.0%	5.9%	3.7%	8.8%
Coverage of interest expenses**	1.4x	-1.9x	8.3x	1.0x	0.3x	2.0x
Operating expenses to average investments	5.7%	1.6%	17.0%	5.1%	1.6%	11.0%
Total debt to equity*	27.9x	3.7x	111.2x	23.6x	3.9x	57.9x
Long-term debt to equity*	26.9x	2.3x	109.7x	21.3x	3.8x	55.5x

* EFG Leasing a.d. Beograd was excluded from the calculation of indicators as at 30 September 2007 as its losses exceeded its equity in 2006.

** LIPAKS a.d. Beograd was excluded from the calculation of this indicator as at 30 September 2007 due to extreme values. Sogelease Srbija d.o.o. Beograd and EFG Leasing a.d. Beograd were excluded from the calculation of all indicators for 2006 on account of extreme values attributable to the start-up of their business operations, while Meridian Leasing d.o.o. Beograd and Piraeus Leasing d.o.o. Beograd were excluded from the calculation of all indicators for 2007.

Table 7 – Performance indicators – aggregate data

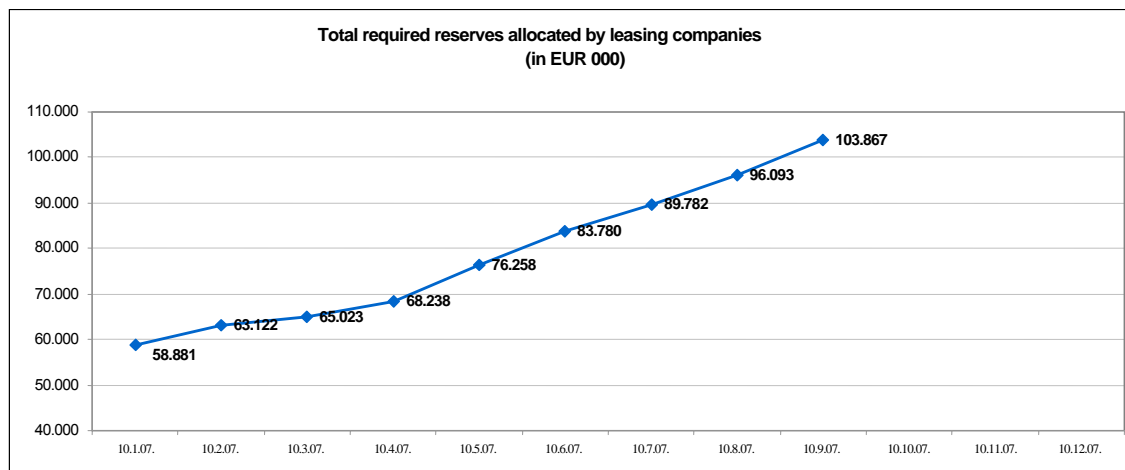
Performance indicator	31/12/2006	30/09/2007
Return on average assets (ROA)	1.56%	1.63%
Return on average equity (ROE)	30.65%	27.61%
Net interest margin	5.24%	4.27%
Average lending rate	10.04%	9.55%
Average deposit rate	4.63%	4.84%
Coverage of interest expenses	1.37x	1.37x
Operating expenses to average investments	3.97%	3.50%
Total debt to equity	16.31x	15.58x
Long-term debt to equity	15.68x	14.76x

Sources of Financing

Balance sheet structure indicates that the largest portion of financial leasing investment is financed based on foreign borrowing – foreign credit obligations account for 86.2% of total liabilities, while financial leasing investment accounts for 81.8% of total assets. Long-term domestic credits declined from the preceding year to a mere 3.9% of total liabilities. Foreign creditors of financial leasing companies are mostly their founders or legal entities operating within the same banking group.

In early December 2005, leasing companies were obligated to allocate reserves on credits, other types of borrowing and supplementary payments from abroad (excluding payments with respect to share capital) used from 10 December 2005. In April 2006, reserve requirement ratio was raised from 10% to 20% where it remained throughout the first three quarters of 2007.

Since the introduction of reserve requirements, the amount of allocated reserve balances rose from one maintenance period to another due to the ever increasing foreign borrowing. Movements in total reserve balances allocated by leasing companies in 2007 are illustrated by the chart below:



From 10 February 2006 to 10 September 2007, initial base for the calculation of required reserves increased 8.74 times and came to EUR 519.3 million, which makes up 53.5% of total foreign credits disbursed by leasing companies. Reserving base growth rates, which have been varying across different maintenance periods, are illustrated in the chart below.

