

FINANCIAL LEASING SUPERVISION

Third Quarter Report 2011

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Market participants

Number of lessors

As at 30 September 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. The number of employees in the financial leasing sector rallied in Q2, only to dip yet again in the quarter that followed. At end-Q3, it came at 477. 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 September 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/ 09/ 2011	477

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 EFG Eurobank Ergasias s.a, Athens, Greece Eurobank EFG a.d. Beograd	48.63 25.81 25.56
3.	Hypo Alpe-Adria-Leasing d.o.o. Beograd	Hypo-Alpe-Adria-Leasing Holding GmbH, Klagenfurt, Austria	100
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

No	Lessor	Owner	Ownership percentage
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	100
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 September 2011, total balance sheet assets of the leasing sector came at RSD 79.5 bln, down by 19.6% 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 (90.1% of total assets and 87.8% of total liabilities).

Notwithstanding a 15.3% fall at end-Q3 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 78.8%, which is an increase relative to both 2009 and 2010 (75.1% and 74.8% respectively).

Relative to 2010, current assets shrank by 32.8%, reflecting chiefly the 48.5% drop in the 'cash and cash equivalents' item. The share of this item in total balance sheet assets fell from 14.9% at end-2010 to 9.6% at end-Q3 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 71.6% on 30 September 2011.

The share of short-term financial assets and short-term receivables rose from 6.7% at end-2010 to 7.3% at end-Q3 2011 (3.6% in 2009), while the share of other current assets and deferred tax assets went up from 2.8% to 3.5%. Unable to invest in financial leasing, some lessors termed their free financial assets with banks, and this is what primarily drove the above increase in the share of short-term financial assets and short-term receivables in total balance sheet assets.

As at 30 September 2011, long-term obligations accounted for the largest share of total liabilities – 86.5%, down by 22.4% 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 81.8% (86.1% in 2009), while the share of long-term domestic credits rose from 3.6% in 2010 to 4.7% (3.8% in 2009).

The share of short-term obligations in total liabilities rose from 2.1% in 2010 to 3.1% (1.9% in 2009), of which 2.1% referred to other obligations and deferred tax obligations (1.6% in 2009 and 1.7% in 2010). Short-term domestic credits accounted for 0.8% 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 0.2% (0.1% in 2009 and 2010).

The 0.9% increase in capital in 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 10.3% on 30 September 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 September 2011.

Table 3 – Aggregate balance sheet of all lessors

(in RSD 000)

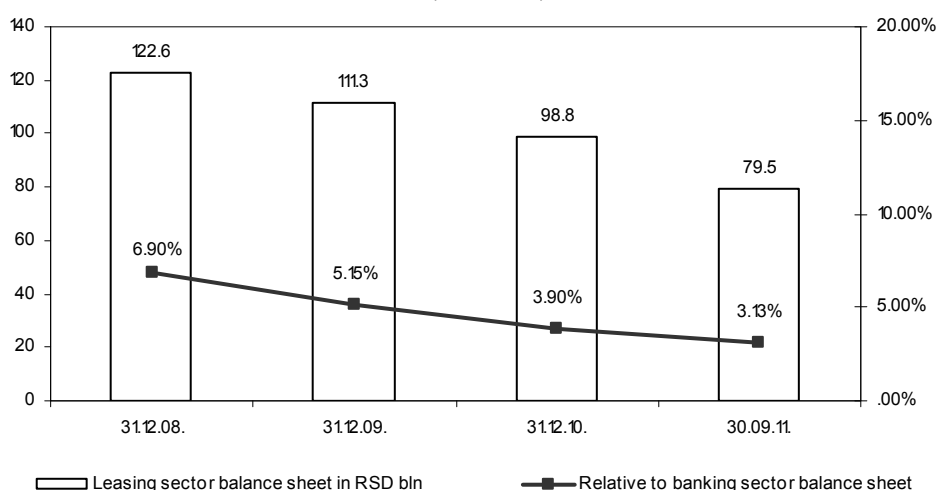
No	ITEM	31 Dec 2009		31 Dec 2010		30 Sep 2011		% growth	
		amount	%	amount	%	amount	%	31.12.10/ 31.12.09.	30.09.11/ 31.12.10.
	ASSETS	111,313,931	100.0	98,834,426	100.0	79,488,235	100.0	-11.2	-19.6
1	FIXED ASSETS	84,474,525	75.9	74,687,519	75.6	63,261,012	79.6	-11.6	-15.3
1.1	Property, plant and equipment	701,953	0.6	585,866	0.6	534,503	0.7	-16.5	-8.8
1.2	Receivables under financial leasing	83,548,501	75.1	73,921,551	74.8	62,600,716	78.8	-11.5	-15.3
1.3	Other long-term financial assets	158,009	0.1	89,674	0.1	12,075	0.0	-43.2	-86.5
1.4	Other fixed assets	66,062	0.1	90,428	0.1	113,718	0.1	36.9	25.8
2	CURRENT ASSETS	26,839,406	24.1	24,146,907	24.4	16,227,223	20.4	-10.0	-32.8
2.1	Cash and cash equivalents	20,102,370	18.1	14,769,525	14.9	7,609,184	9.6	-26.5	-48.5
2.2	Short-term financial assets and receivables	3,964,327	3.6	6,586,333	6.7	5,813,854	7.3	66.1	-11.7
2.3	Other current assets and deferred tax assets	2,772,709	2.4	2,791,049	2.8	2,804,185	3.5	0.7	0.5
	LIABILITIES	111,313,931	100.0	98,834,426	100.0	79,488,235	100.0	-11.2	-19.6
1	CAPITAL	8,947,216	8.1	8,121,587	8.2	8,197,429	10.3	-9.2	0.9
1.1	Share capital	3,438,445	3.1	3,756,458	3.8	3,756,458	4.7	9.2	0.0
1.2	Reserves	2,730,229	2.5	3,688,091	3.7	2,900,301	3.7	35.1	-21.4
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	3,210,721	4.0	-17.1	9.9

No	ITEM	31 Dec 2009		31 Dec 2010		30 Sep 2011		% growth	
		amount	%	amount	%	amount	%	31.12.10/ 31.12.09.	30.09.11/ 31.12.10.
1.6	Losses	745,517	0.7	2,243,216	2.3	1,670,051	2.1	200.9	-25.6
1.7	Purchased own shares and stakes	1,671	0.0	2,266	0.0	0	0.0	35.6	-100.0
				0					
2	LONG-TERM PROVISIONING AND LIABILITIES	100,265,797	90.0	88,715,984	89.7	68,806,611	86.6	-11.5	-22.4
2.1	Long-term provisions	151,685	0.1	143,067	0.1	52,337	0.1	-5.7	-63.4
2.2	Long-term liabilities	100,114,112	89.9	88,572,917	89.6	68,754,274	86.5	-11.5	-22.4
2.2.1	Long-term domestic credit	4,296,175	3.8	3,552,908	3.6	3,730,889	4.7	-17.3	5.0
2.2.2	Long-term foreign credit	95,797,916	86.1	85,020,009	86.0	65,023,385	81.8	-11.3	-23.5
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	2,484,195	3.1	-5.0	24.4
3.1	Short-term financial liabilities	369,927	0.3	321,261	0.4	767,984	1.0	-13.2	139.1
3.1.1	Short-term domestic credit	238,195	0.2	253,887	0.3	610,740	0.8	6.6	140.6
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	131,732	0.1	67,374	0.1	157,244	0.2	-48.9	133.4
3.2	Other liabilities and deferred tax liabilities	1,730,991	1.6	1,675,594	1.7	1,716,211	2.1	-3.2	2.4

Balance sheet total of lessors and banks

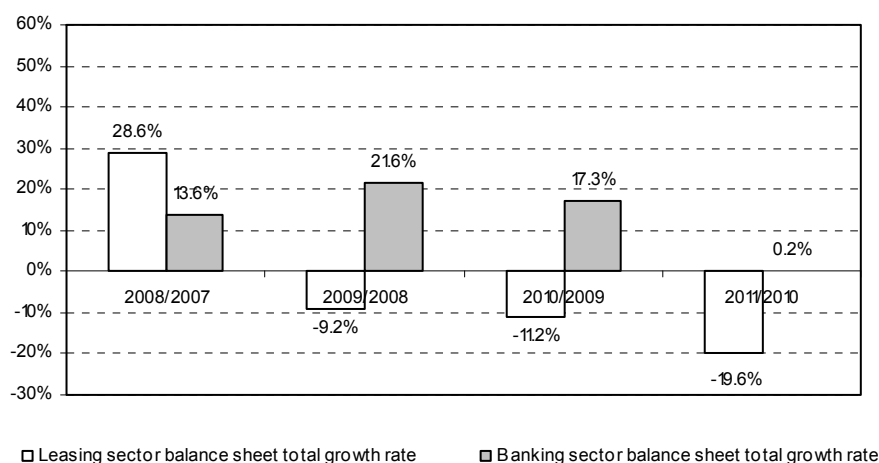
As at 30 September 2011, the ratio of balance sheet total of the leasing sector (RSD 79.5 bln) to banking sector balance sheet total equalled 3.13%, as illustrated in Chart 1 below.

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



From 31 December 2010 to 30 September 2011, leasing sector balance sheet total declined by 19.6%, while banking sector balance sheet total increased by 0.2% 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	20,853,174	26.2%	26.2%
2.	NLB Leasing d.o.o. Beograd	10,648,448	10.8%	39.8%	2.	Raiffeisen Leasing d.o.o. Beograd	6,608,067	8.3%	34.5%
3.	Raiffeisen Leasing d.o.o. Beograd	9,720,438	9.8%	49.6%	3.	NLB Leasing d.o.o. Beograd	6,573,850	8.3%	42.8%
4.	VB Leasing d.o.o. Beograd	6,119,481	6.2%	55.8%	4.	EFG Leasing a.d. Beograd	5,903,674	7.4%	50.2%
5.	EFG Leasing a.d. Beograd	6,088,951	6.2%	62.0%	5.	Intesa Leasing d.o.o. Beograd	5,843,462	7.4%	57.6%
6.	Intesa Leasing d.o.o. Beograd	5,945,518	6.0%	68.0%	6.	VB Leasing d.o.o. Beograd	5,424,916	6.8%	64.4%
7.	NBG Lizing d.o.o. Beograd	4,882,389	4.9%	72.9%	7.	UniCredit Leasing Srbija d.o.o. Beograd	4,919,349	6.2%	70.6%
8.	UniCredit Leasing Srbija d.o.o. Beograd	4,804,870	4.9%	77.8%	8.	NBG Lizing d.o.o. Beograd	4,319,487	5.4%	76.0%

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
9.	S-Leasing d.o.o. Beograd	4,176,028	4.2%	82.0%	9.	Sogelease Srbija d.o.o. Beograd	4,055,377	5.1%	81.1%
10.	Sogelease Srbija d.o.o. Beograd	3,962,835	4.0%	86.0%	10.	CA Leasing Srbija d.o.o. Beograd	2,828,712	3.6%	84.7%
11.	LIPAKS d.o.o. Beograd	3,530,470	3.6%	89.6%	11.	LIPAKS d.o.o. Beograd	2,815,046	3.6%	88.3%
12.	Procredit Leasing d.o.o. Beograd	2,925,445	3.0%	92.6%	12.	S-Leasing d.o.o. Beograd	2,728,492	3.4%	91.7%
13.	CA Leasing Srbija d.o.o. Beograd	2,860,493	2.9%	95.5%	13.	Procredit Leasing d.o.o. Beograd	2,619,887	3.3%	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	1,860,682	2.3%	97.3%
15.	Piraeus Leasing d.o.o. Beograd	1,442,845	1.5%	99.4%	15.	Piraeus Leasing d.o.o. Beograd	1,561,044	2.0%	99.3%
16.	Zastava Istrabenz Lizing d.o.o. Beograd	554,932	0.5%	99.9%	16.	Zastava Istrabenz Lizing d.o.o. Beograd	486,185	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	86,831	0.1%	100.0%
TOTAL		98,834,426	100.0%	-	TOTAL		79,488,235	100.0%	-
Herfindahl-Hirschman index		1,288.6			Herfindahl-Hirschman index		1,133.0		

The HHI of 1,133.0 on 30 September 2011 points to moderate concentration of the Serbian financial leasing market.

As shown in Table 4, the ranking of lessors by market share changed at end-Q3 relative to end-2010. The aggregate market share of top three lessors contracted from 49.6% to 42.8%. Hypo Alpe-Adria-Leasing d.o.o. Beograd retained its lead, while NLB Leasing d.o.o. Beograd and Raiffeisen Leasing d.o.o. Beograd switched places, so that NLB Leasing now ranks third and Raiffeisen Leasing second.

As at 30 September 2011, the most significant ranking and market share changes relative to 2010 were recorded for the following lessors:

- CA Leasing Srbija d.o.o. Beograd moved from the thirteenth to the tenth place, its market share rising from 2.9% to 3.6%,
- VB Leasing d.o.o. Beograd moved from the fourth to the sixth place notwithstanding the rise in its market share from 6.2% to 6.8%, and
- S-Leasing d.o.o. Beograd, which moved from the ninth to the twelfth place, its market share down from 4.2% to 3.4%.

Profit and loss account

Total profit before tax of all financial lessors amounted to RSD 234.2 mln in the first three quarters of 2011 (in 2010 it was negative at RSD 868.1 mln). In the period under review, re-calculated at annual level, total income fell by 22.8% and total expenses by 32.4%.

Interest income from leasing accounted for the major part of total income, its share rising from 70.3% in 2010 to 73.3% in Q3 2011 (88.6% in 2009). Income from leasing operations accounted for 12.1% of total income, net income from other interest for 8.0% and other income and gains for 5.7%.

Interest expenses arising from leasing operations accounted for the largest share of total expenses. Their share rose from 29.9% in 2010 to 31.6% in Q3 2011 (34.9% in 2009). Net expenses of asset valuation adjustment accounted for 26.0% of total expenses, other operating expenses for 14.7%, earnings, fees, salaries and other personal expenses for 14.6%, expenses arising from leasing operations for 3.5%, other losses and expenses for 2.0%, depreciation and provisioning for 1.7%, and net losses on account of sale and lease for 1.5%.

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 September 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.- 30.09.11.	% 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	3.973.433	73,3	-23,7	-19,5
2	Interest expenses from leasing	3.393.615	34,9	2.799.920	29,9	1.713.589	31,6	-17,5	-18,4
3	Income from leasing	555.625	5,7	1.044.800	11,2	655.814	12,1	88,0	-16,3
4	Expenses from leasing	1.212.787	12,5	272.992	2,9	189.163	3,5	-77,5	-7,6
I	BUSINESS RESULT	4.576.465	47,0	4.551.236	48,6	2.726.495	50,3	-0,6	-20,1
	OTHER INCOME AND EXPENSES								
5	Net income from other interest	0	0.0	736,079	7.9	433,329	8.0	-	-21.5
6	Net expenses from other interest	1,260	0.0	0	0.0	0	0.0	-100.0	-
7	Net income from exchange rate differentials and currency clause effects	333,988	3.4	489,583	5.2	16,118	0.3	46.6	-95.6
8	Net expenses from exchange rate differentials and currency clause effects	0	0.0	444,349	4.7	0	0.0	-	-100.0
9	Net income from share in income of related legal entities and joint investment	0	0.0	0	0.0	18,578	0.3	-	-
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	0	0.0	-50.4	-100.0
12	Net losses from sale and lease	0	0.0	257,935	2.8	81,968	1.5	-	-57.6
13	Earnings, fees, salaries and other personal expenses	969,622	10.0	1,045,085	11.2	791,076	14.6	7.8	0.9
14	Depreciation and provisioning	228,992	2.4	154,875	1.7	93,598	1.7	-32.4	-19.4
15	Other operating expenses	63,725	0.7	1,243,422	13.3	797,654	14.7	1.851.2	-14.5

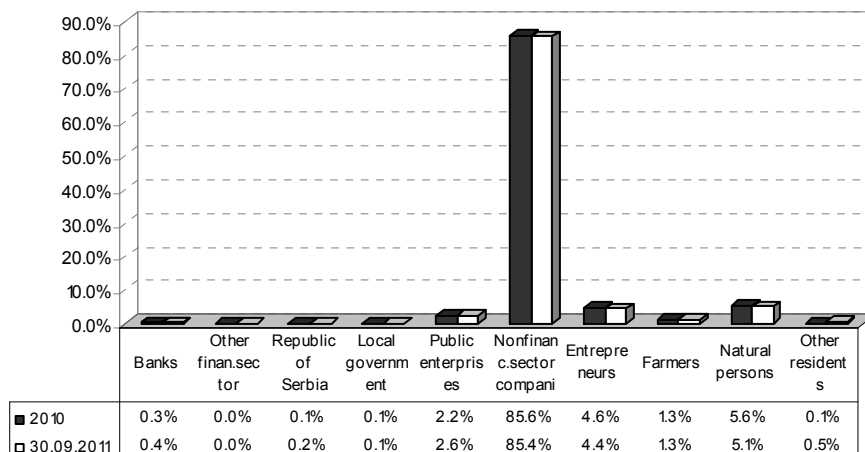
No	ITEM	01.01.- 31.12.09.	% of total inc.	01.01.- 31.12.10.	% of total inc.	01.01.- 30.09.11.	% of total inc.	% growth 2010/ 2009	% growth 2011/ 2010
16	Net income from sale of intangible investment, property, plant, equipment and other assets	18,421	0.2	27,616	0.3	10,376	0.2	49.9	-49.9
17	Net loss from sale of intangible investment, property, plant, equipment and other assets	0	0.0	744	0.0	0	0.0	-	-100.0
18	Net income from sale of share in capital and securities	0	0.0	0	0.0	266	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 valuation adjustment	0	0.0	0	0.0	0	0.0	-	-
21	Net expenses from asset valuation adjustment	1,769,605	18.2	3,811,858	40.7	1,410,440	26.0	115.4	-50.7
22	Other income and gains	9,486	0.1	385,768	4.1	311,035	5.7	3,966.7	7.5
23	Other expenses and losses	31,597	0.3	194,886	2.1	107,267	2.0	516.8	-26.6
II	REGULAR OPERATING RESULT	2,053,993	21.1	-868,364	-9.3	234,194	4.3	-142.3	-136.0
24	NET GAIN FROM DISCONTINUED OPERATIONS	0	0.0	319	0.0	47	0.0	-	-80.4
25	NET LOSS FROM DISCONTINUED OPERATIONS	0	0.0	14	0.0	47	0.0	-	347.6
III	PRE-TAX RESULT	2,053,993	21.1	-868,059	-9.3	234,194	4.3	-142.3	-136.0
26	PROFIT TAX								
26.1	1. Tax expense of the period	218,407	2.2	221,347	2.4	96,120	1.8	1.3	-42.1
26.2	2. Deferred tax expenses of the period	7,201	0.1	19,706	0.2	15,613	0.3	173.7	5.6
26.3	3. Deferred tax income of the period	23,659	0.2	117,902	1.3	174	0.0	398.3	-99.8
27	Paid personal income to employer	0	0.0	0	0.0	0	0.0	-	-
IV	NET RESULT	1,852,044	19.0	-991,210	-10.6	122,635	2.3	-153.5	-116.5
V	TOTAL INCOME AND PROFIT	9,735,455	100.0	9,358,021	100.0	5,418,996	100.0	-3.9	-22.8
VI	TOTAL EXPENSES AND LOSSES	7,681,462	78.9	10,226,080	109.3	5,184,802	95.7	33.1	-32.4

Structure of investments and asset quality

Lessees

The structure of investments by lessee (Chart 3) remained broadly unchanged in 2011 relative to 2010.

Chart 3 – Investment structure by lessee

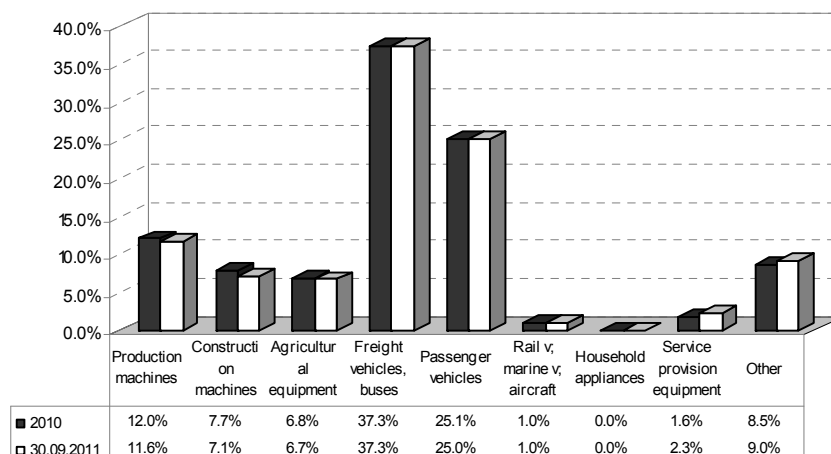


As at end-2010, at end-Q3 2011, most financial lease arrangements were approved to non-financial sector companies (85.4%), while the share of other lessees was much smaller. The share of natural persons was 5.1%, entrepreneurs – 4.4%, public enterprises – 2.6%, and farmers – 1.3%. The share of the remaining categories was below 1% each.

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 – 37.3% (as in 2010). Next in size was the share of passenger vehicles – 25.0% (25.1% in 2010).

Chart 4 – Investment structure by lease object

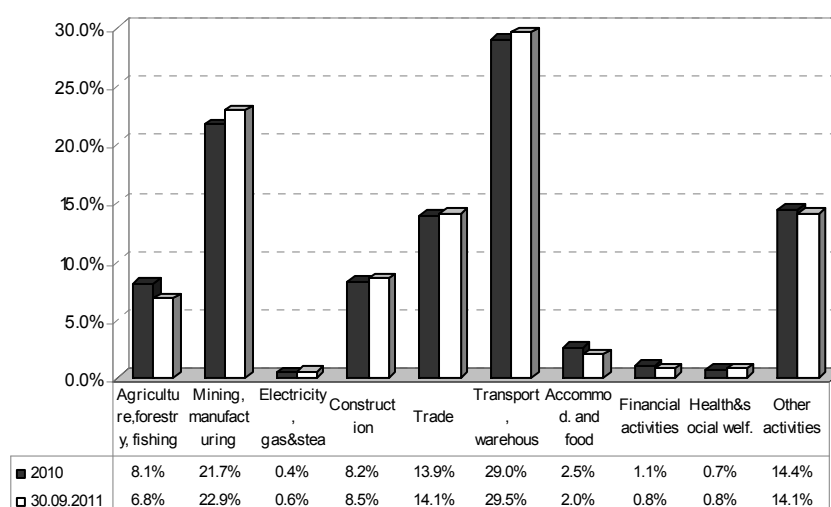


The share of financing of production machinery declined from 12.0% at end-2010 to 11.6% at end-Q3, and so did the shares of construction machinery (from 7.7% to 7.1%) and agricultural equipment (from 6.8% to 6.7%). The share of financing of other lease objects rose from 8.5% in 2010 to 9.0%, and the share of financing of service provision equipment climbed from 1.6% to 2.3%.

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-Q3 was that of transport, warehousing, information and communication (29.5% vs. 29.0% in 2010). Key changes in the sector structure of lease investments involved a decrease in the share of agriculture, forestry and fishing from 8.1% to 6.8% and an increase in the share of manufacturing together with mining and water supply from 21.7% to 22.9%. Other activities account for a significant share – 14.1% (14.4% in 2010), as well as trade – 14.1% (13.9% in 2010).

Asset quality

On 30 September 2011, the value of the financial leasing market portfolio was RSD 62.6 bln, down by 15.3% relative to end-2010 (RSD 73.9 bln).

Past due receivables reached RSD 3,966,797 thousand, making up 48.4% of capital (76.3% in 2010), while at the same time accounting for 6.3% of total portfolio (8.4% in 2010). Receivables past due more than 90 days accounted for 55.9% of total past due receivables.

At the end of this reporting period, receivables past due more than 90 days made up 3.54% of the total financial leasing market portfolio. To get a realistic picture of receivables past due more than 90 days, it should be taken into account that the share of valuation adjustment for those receivables in total receivables was 8.6%.

The share of receivables valuation adjustment in total receivables increased to 10.9% (8.4% at end-2010).

In the year to September, the value of returned lease objects was RSD 2,389.4 mln, which, together with outstanding balances from previous years, came to RSD 4,140.7 mln or 6.3% of the portfolio and 49.9% of capital (in 2010, 8.1% and 74.1% respectively). Of the above value of the returned lease objects, lessors re-leased 23.2%, sold 35.3%, while nearly 34% remained unemployed. The value of returned lease objects was reduced through valuation adjustment by 7.7%. At end-Q3 2011, the stock of returned lease objects came at RSD 1,398.6 mln or 2.1% of the portfolio and 16.9% 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 Sep 2011
Return on assets (ROA)	-0.83%	0.35%
Return on equity (ROE)	-10.17%	3.83%
Net interest margin	5.74%	5.26%
Average lending rate	9.36%	8.63%
Average deposit rate	3.01%	2.30%
Coverage of interest expenses	0.70x	1.14x
Operating expenses to average investment	3.10%	3.29%
Total debt to equity	11.17x	8.70x
Long-term debt to equity	10.92x	8.39x

Performance indicators of financial leasing providers (ROA and ROE) were positive at end-Q3 2011 thanks to the positive pre tax result.

Average lending and deposit rates decreased 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 8.70 and 8.39 times higher than equity, respectively.

Sources of financing and reserve balances

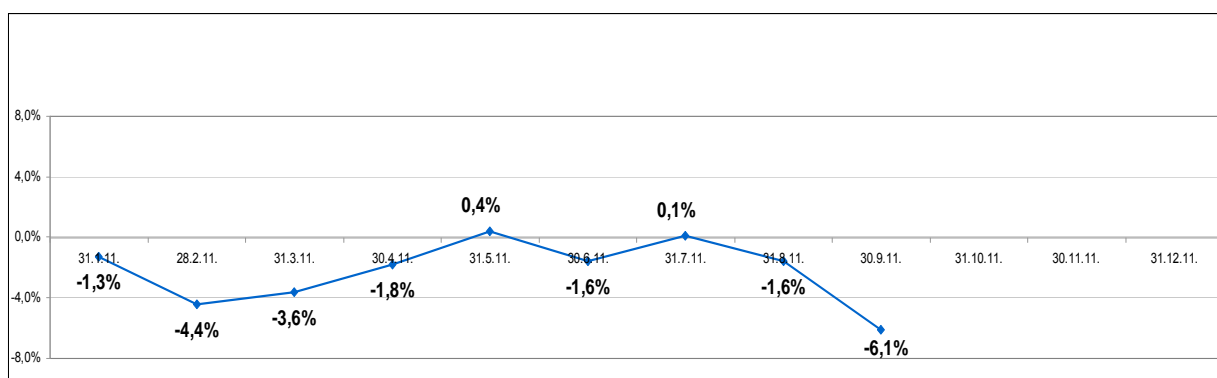
The balance sheet structure indicates that the largest portion of financial lease investment was financed from foreign borrowing – as at 30 September 2011, foreign credit obligations made up 81.8% of total liabilities, while financial lease investment accounted for 78.8% of total assets. The share of long-term domestic credits rose from 3.6% in 2010 to 4.7% of total liabilities, while the share of short-term domestic credits climbed from 0.3% to 0.8%. 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 September 2011 (against which allocation was made on 18 October 2011) increased 9.5 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 505.4 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 this context, on 30 September 2011, the calculation of reserve balances was not made against EUR 66.6 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)

