



NATIONAL BANK OF SERBIA

Bank Supervision Department

Financial Leasing Supervision Division

Financial Leasing Supervision

Report for Q2 2007

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Market Participants

Number of lessors

As of 30 June 2007, the following lessors were licensed to perform financial leasing operations:

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

In Q1 2007, leasing company TBI Lizing d.o.o. Beograd changed both owner and name and now operates under the name NBG Lizing d.o.o. Beograd, while in April 2007 leasing company HVB Leasing d.o.o. Beograd changed its name to UniCredit Leasing Srbija d.o.o. Beograd.

Compared with the previous periods, the total number of employees in the financial leasing sector has increased, and so have the total assets per employee. As of 30 June 2007, average assets per employee amounted to RSD 168,454 thousand, an increase of 12.4% compared with RSD 149,881 thousand as of 31 December 2006. The average number of employees per leasing company is now 27.7, meaning that, on the average, every company now employs 2 employees more than on 31 December 2006. The number of employees by leasing companies ranges from four to ninety-two. Table 1 below shows the number of employees in the financial leasing sector at end-2005, end-2006 and as of 30 June 2007:

Table 1 – Number of employees in the financial leasing sector

Date	Number of employees
31 December 2005	329
31 December 2006	388
30 June 2007	415

Ownership structure

Domestic vs. foreign ownership.

- 9 leasing companies are in 100% or majority ownership of foreign legal entities;
- 5 leasing companies are in 100% or majority ownership of domestic entities (of which 4 are owned by domestic companies with foreign capital);
- 1 leasing company is owned by a domestic bank with foreign capital and a 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 remaining 12 leasing companies were founded by banks, bank group members or other financial institutions.

Table 2 gives an overview of ownership structure of financial leasing companies.

Table 2 – Ownership 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	51%
		CIB Leasing, Budapest, Hungary	49%
4	KB Leasing d.o.o. Novi Sad	OTP banka Srbija a.d. Novi Sad	100%
5	LIPAKSC 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	50%
		Raiffeisen - Leasing International GmbH, Wien, Austria	50%
10	S-Leasing d.o.o. Beograd	Steiermarkische Bank und Sparkassen Aktiengesellschaft, Graz, Austria	50%
		Immorent International Holding GmbH, Wien, Austria	50%
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%

No.	Leasing company	Owner	Ownership percentage
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 EUROBANK ERGASIAS S.A, Athens, Greece	51.14%
		EFG Eurobank a.d. Beograd	48.86%

Balance Sheet Structure

Balance sheet

Total financial leasing sector balance sheet assets as of 30 June 2007 amounted to RSD 80.3 billion. In the first half of 2007, total balance sheet assets of the sector went 18.6% up (from RSD 67.7 billion as at 31 December 2006 to RSD 80.3 billion as at 30 June 2007). Claims in respect of financial leasing accounted for 82.3% 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 11.9% (2.2% in 2005 and 9.1% in 2006), which came as a consequence of the introduction of obligatory allocation of reserves against credit, other loans and supplementary payments from abroad (excluding payments with respect to increasing share capital). Reserve balances as at 30 June 2007 accounted for as much as 69.4% of cash and cash equivalents.

Long-term obligations accounted for the most significant share of lessor liabilities – 87.4% (88.4% in 2005 and 90.1% in 2006), of which foreign long-term credit – 82.5% (83.2% in 2005 and 83.6% in 2006) and domestic long-term credit – 4.7% (4.8% in 2005 and 6.3% in 2006). Short-term obligations accounted for 6.4% of total liabilities (7.2% in 2005 and 3.7% in 2006), with domestic short-term credit accounting for 0.7% (4.5% in 2005 and 1% in 2006) and foreign short-term credit for 3%. Although the share of capital increased by 15.9% in the first half of 2007 against 2006, its share in total liabilities went down from 5.8% in 2006 to 5.6% in the first half of 2007 (4.2% in 2005). The structure of capital is dominated by share capital – 48.7% - and retained earnings – 47.2%. In the first half of 2007, the share capital of leasing companies was increased by 16% and their retained earnings were increased by 28.8%.

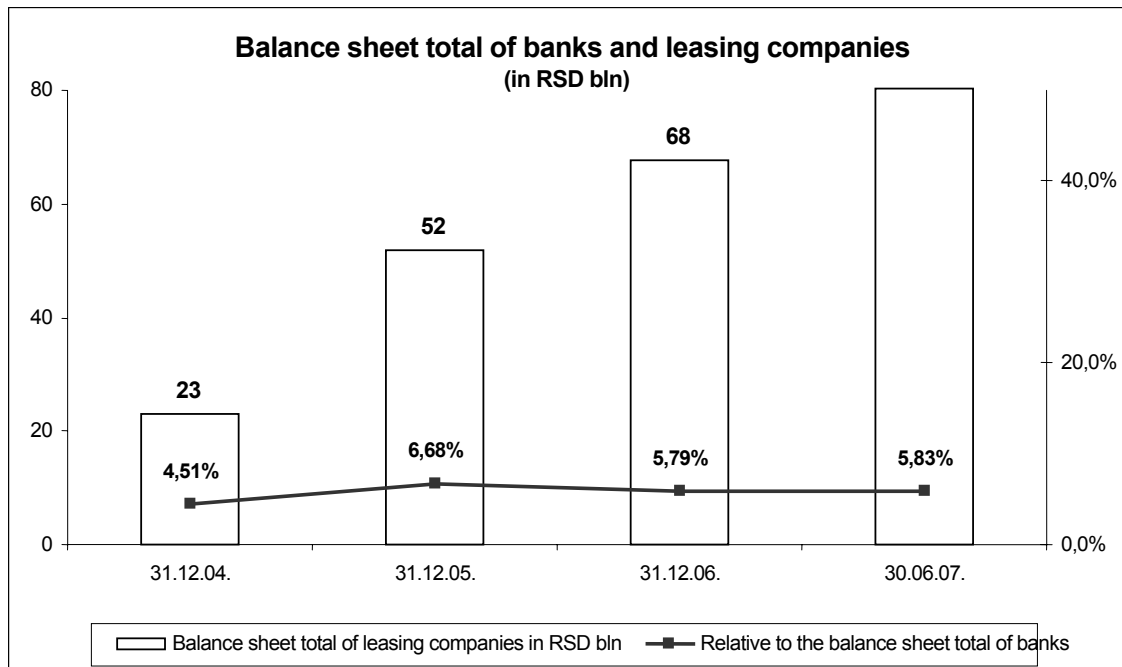
Table 3 presents the aggregate balance sheet of all financial leasing companies, in RSD thousand, as of 31 December 2005, 31 December 2006 and 30 June 2007 respectively.

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

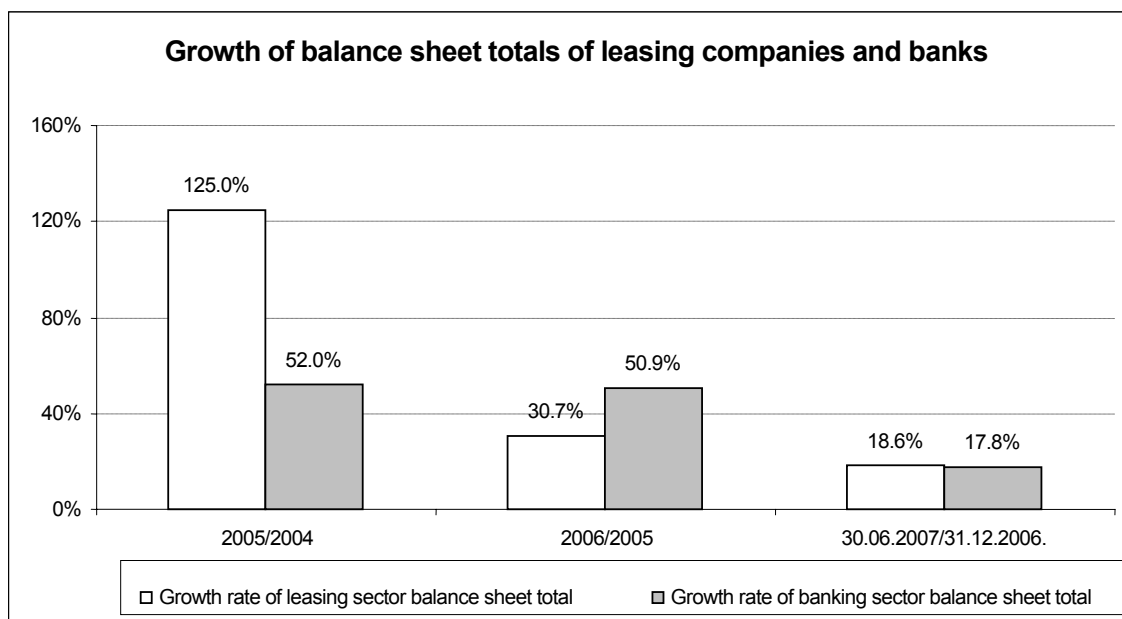
No.	ITEM	31/12/2005		31/12/2006		30/06/2007		% of growth	
		Amount	%	Amount	%	Amount	%	31/12/06/ 31/12/05	30/06/07/ 31/12/06
	ASSETS	51,788,344	100.0%	67,702,703	100.0%	80,290,115	100.0%	30.7%	18.6%
1	FIXED ASSETS	48,686,970	94.0%	59,417,517	87.8%	67,528,560	84.1%	22.0%	13.7%
1.1	Property, plant and equipment	1,368,676	2.6%	1,309,297	1.9%	1,270,013	1.6%	-4.3%	-3.0%
1.2	Claims under financial leasing	47,275,973	91.3%	57,958,183	85.6%	66,089,219	82.3%	22.6%	14.0%
1.3	Other long-term financial investments	2,361	0.0%	90,232	0.1%	113,618	0.1%	3721.8%	25.9%
1.4	Other fixed assets	39,960	0.1%	59,805	0.1%	55,710	0.1%	49.7%	-6.8%
2	CURRENT ASSETS	3,101,374	6.0%	8,285,186	12.2%	12,761,555	15.9%	167.1%	54.0%
2.1	Cash equivalents and cash	1,115,554	2.2%	6,164,135	9.1%	9,540,377	11.9%	452.6%	54.8%
2.2	Short-term financial investment and claims	684,409	1.3%	596,401	0.9%	521,224	0.6%	-12.9%	-12.6%
2.3	Other current assets	1,301,411	2.5%	1,524,650	2.3%	2,699,954	3.4%	17.2%	77.1%
	LIABILITIES	51,788,344	100.0%	67,702,703	100.0%	80,290,115	100.0%	30.7%	18.6%
1	CAPITAL	2,178,835	4.2%	3,910,832	5.8%	4,531,698	5.6%	79.5%	15.9%
1.1	Share capital	922,534	1.8%	1,904,609	2.8%	2,209,050	2.8%	106.5%	16.0%
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%	779,426	1.0%	161.8%	0.0%
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%	2,140,816	2.7%	42.7%	28.8%
1.6	Loss	206,181	0.4%	434,974	0.6%	597,594	0.7%	111.0%	37.4%
1.7	Redeemed own shares	0	0.0%	0	0.0%	0	0.0%	-	-
2	DEBT, PROVISIONING AND OBLIGATIONS	45,871,865	88.6%	61,320,533	90.6%	70,596,030	87.9%	33.7%	15.1%
2.1	Long-term provisions	71,593	0.1%	291,916	0.4%	430,198	0.5%	307.7%	47.4%
2.2	Long-term obligations	45,800,272	88.4%	61,028,617	90.1%	70,165,832	87.4%	33.2%	15.0%
2.2.1	Long-term domestic credit	2,478,811	4.8%	4,292,567	6.3%	3,779,263	4.7%	73.2%	-12.0%
2.2.2	Long-term foreign credit	43,105,703	83.2%	56,587,279	83.6%	66,235,918	82.5%	31.3%	17.1%
2.2.3	Other long-term obligations	215,758	0.4%	148,771	0.2%	150,651	0.2%	-31.0%	1.3%
3	SHORT-TERM OBLIGATIONS	3,737,644	7.2%	2,471,338	3.7%	5,162,387	6.4%	-33.9%	108.9%
3.1	Short-term financial obligations	2,309,176	4.5%	647,589	1.0%	2,966,003	3.7%	-72.0%	358.0%
3.1.1	Short-term domestic credit	2,309,176	4.5%	646,327	1.0%	593,841	0.7%	-72.0%	-8.1%
3.1.2	Short-term foreign credit	0	0.0%	0	0.0%	2,370,762	3.0%	-	-
3.1.3	Other short-term financial obligations	0	0.0%	1,262	0.0%	1,400	0.0%	-	10.9%
3.2	Other	1,428,468	2.8%	1,823,749	2.7%	2,196,384	2.7%	27.7%	20.4%

In four years of their operation, financial leasing companies have posted a balance sheet total corresponding to 5.83% of the banking sector balance sheet total. In 2006, the percentage ratio of these

two balance sheet totals plunged compared with 2005, only to be on the rise again in the first half of 2007, as can be seen from the following chart:



Although the balance sheet total of the leasing sector as of 30 June 2007 had a growth rate of 18.6% relative to 31 December 2006, which is higher than the growth rate recorded in the banking sector balance sheet total – 17.8%, this growth was not sufficient to keep the percentage ratio of banking and leasing sector balance sheet totals at the same level. The chart below illustrates the growth rates of leasing companies and banking sector balance sheet totals:



Market share

For the purpose of the structure of the 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 shares of leasing companies

Position	Leasing company	Balance sheet assets (in RSD 000)	Share in 2006	Cumulative share in 2006	Position	Leasing company	Balance sheet assets (in RSD 000)	Share in 2007	Cumulative share in 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	23,904,598	29.8%	29.8%
2	Raiffeisen Leasing d.o.o. Beograd	14,379,441	21.2%	50.9%	2	Raiffeisen Leasing d.o.o. Beograd	15,173,595	18.9%	48.7%
3	S-Leasing d.o.o. Beograd	8,480,266	12.5%	63.4%	3	S-Leasing d.o.o. Beograd	9,023,845	11.2%	59.9%
4	NLB Leasing d.o.o. Beograd	5,058,496	7.5%	70.9%	4	NLB Leasing d.o.o. Beograd	7,455,558	9.3%	69.2%
5	Porsche Leasing SCG d.o.o. Beograd	3,917,088	5.8%	76.7%	5	UniCredit Leasing Srbija d.o.o. Beograd	5,044,828	6.3%	75.5%
6	HVB Leasing d.o.o. Beograd	3,875,323	5.7%	82.4%	6	VB Leasing d.o.o. Beograd	4,796,395	6.0%	81.5%
7	VB Leasing d.o.o. Beograd	3,839,244	5.7%	88.1%	7	Porsche Leasing SCG d.o.o. Beograd	4,008,943	5.0%	86.5%
8	LIPAKS d.o.o. Beograd	2,964,521	4.4%	92.5%	8	LIPAKS d.o.o. Beograd	3,153,611	3.9%	90.4%
9	Intesa Leasing d.o.o. Beograd	1,427,641	2.1%	94.6%	9	Intesa Leasing d.o.o. Beograd	2,548,829	3.2%	93.6%
10	Procredit Leasing d.o.o. Beograd	1,376,487	2.0%	96.6%	10	Procredit Leasing d.o.o. Beograd	1,697,623	2.1%	95.7%
11	TBI Lizing d.o.o. Beograd	640,483	1.0%	97.6%	11	Sogelease Srbija d.o.o. Beograd	1,281,805	1.6%	97.3%
12	Sogelease Srbija d.o.o. Beograd	631,937	0.9%	98.5%	12	EFG Leasing a.d. Beograd	804,598	1.0%	98.3%
13	Zastava Istrabenz Lizing d.o.o. Beograd	561,301	0.8%	99.3%	13	NBG Lizing d.o.o. Beograd	694,836	0.9%	99.2%
14	EFG Leasing a.d. Beograd	348,736	0.5%	99.8%	14	Zastava Istrabenz Lizing d.o.o. Beograd	587,345	0.7%	99.9%
15	KB Leasing d.o.o. Novi Sad	127,746	0.2%	100.0%	15	KB Leasing d.o.o. Novi Sad	113,706	0.1%	100.0%
TOTAL		67,702,703	100.0%	-	УКУПНО		80,290,115	100.0%	-
Herfindahl-Hirschman index		1.671.9			Herfindahl-Hirschman index		1.591.0		

As shown in table 4, three leasing companies (Hypo Alpe-Adria-Leasing d.o.o. Beograd, Raiffeisen Leasing d.o.o. Beograd and S-Leasing d.o.o. Beograd) have retained their leading market positions in 2007. However, the cumulative share of these three leasing companies went down from 63.4% in 2006 to 59.9%.

The financial leasing market can be classified as a moderately concentrated market, although its concentration level reveals an increasing tendency over time, as evident from the HHI, which dropped from 1,671.9 in 2006 to 1,591.0 in the first half of 2007, while in 2005 it stood at 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 5th in 2006 to 7th in the first half of 2007, with a drop in its market share from 5.8% to 5.0%,

- NBG Lizing d.o.o. Beograd (TBI Lizing d.o.o. Beograd), which dropped from 11th in 2006 to 13th in the first half of 2007, while its market share fell from 1.0% to 0.9%,
- EFG Leasing a.d. Beograd, which rose from 14th in 2006 to 12th in the first half of 2007, matched by an increase in its market share from 0.5% to 1.9%.

Profit and loss account

Total profit before tax recorded at the level of the financial leasing market in the first half of 2007 amounted to RSD 423,729 thousand, down by 9.2% per annum compared to 2006 (when it stood at RSD 933,199 thousand).

In the first half of 2007, exchange rate gains were the most significant category of lessor income, accounting for 51.8% of total income (56.6% in 2005 and 61.4% in 2006). Interest income accounted for 40.1% of total income (27.9% in 2005 and 33.2% in 2006), while operating income accounted for 4.7% (5.6% in 2005 and 3.7% in 2006).

Among the major categories of expenses were exchange rate losses, which accounted for 54.4% of total expenses (66.9% in 2005 and 66.7% in 2006), interest expenses with 24.7% (13.1% in 2005 and 16.8% in 2006) and operating income with 17.0% (13.5% in 2005 and 13.9% in 2006).

At the annual level, both total income and total expenses recorded in the first half of 2007 were lower than in 2006; however, the decrease of total income (7.1%) was relatively higher than that of total expenses (6.9%), which resulted in a minimal decline of the share of net profit before tax in total income, from 5.8% in 2006 to 5.7% in the first half of 2007.

Table 5 presents the aggregate profit and loss account of all financial leasing companies, in RSD thousand, as of 31 December 2005, 31 December 2006 and 30 June 2007 respectively.

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

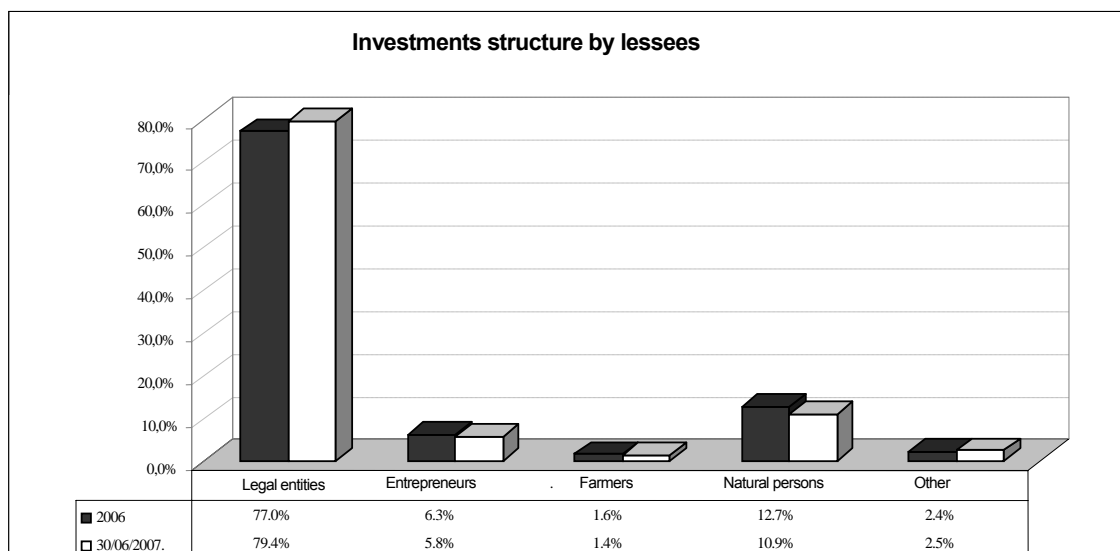
No.	POSITION	1 Jan - 31 Dec 05	% of total income	1 Jan - 31 Dec 06	% of total income	1 Jan - 30 June 07	% of total income	% of growth 2006/2005	% of growth 30/06/07/31/12/06 (p.a.)
	OPERATING INCOME	635,591	5.6%	586,586	3.7%	351,383	4.7%	-7.7%	19.8%
1	Net sales income	456,264	4.0%	307,076	1.9%	219,784	3.0%	-32.7%	43.1%
2	Other operating income	179,327	1.6%	279,510	1.7%	131,599	1.8%	55.9%	-5.8%
	OPERATING EXPENSES	1,388,604	12.3%	2,099,039	13.1%	1,191,827	16.0%	51.2%	13.6%
3	Salaries, compensations and other fringe benefits	364,223	3.2%	536,672	3.4%	297,161	4.0%	47.3%	10.7%
4	Depreciation and provisioning	214,938	1.9%	463,178	2.9%	276,179	3.7%	115.5%	19.3%
5	Other operating expenses	809,443	7.2%	1,099,189	6.9%	618,486	8.3%	35.8%	12.5%
I	OPERATING RESULT	(753,013)	-6.7%	(1,512,453)	-9.4%	(840,444)	-11.3%	100.9%	11.1%
	FINANCIAL INCOME	9,585,161	85.0%	15,179,013	94.8%	6,868,106	92.3%	58.4%	-9.5%
6	Interest income	3,143,739	27.9%	5,312,294	33.2%	2,986,357	40.1%	69.0%	12.4%
7	Exchange rate gains	6,389,289	56.6%	9,825,021	61.4%	3,856,778	51.8%	53.8%	-21.5%

No.	POSITION	1 Jan - 31 Dec 05	% of total income	1 Jan - 31 Dec 06	% of total income	1 Jan - 30 June 07	% of total income	% of growth 2006/2005	% of growth 30/06/07/31/12/06 (p.a.)
8	Other	52,133	0.5%	41,698	0.3%	24,971	0.3%	-20.0%	19.8%
	FINANCIAL EXPENSES	8,260,602	73.2%	12,616,849	78.8%	5,560,756	74.7%	52.7%	-11.9%
9	Interest expenses	1,348,341	12.0%	2,539,633	15.9%	1,729,973	23.2%	88.4%	36.2%
10	Exchange rate expenses	6,889,912	61.1%	10,053,966	62.8%	3,817,909	51.3%	45.9%	-24.1%
11	Other	22,349	0.2%	23,250	0.1%	12,874	0.2%	4.0%	10.7%
II	FINANCIAL RESULT	1,324,559	11.7%	2,562,164	16.0%	1,307,350	17.6%	93.4%	2.1%
12	Other income	1,062,000	9.4%	247,879	1.5%	222,121	3.0%	-76.7%	79.2%
13	Other expenses	653,623	5.8%	364,917	2.3%	265,298	3.6%	-44.2%	45.4%
III	PROFIT FROM REGULAR OPERATIONS	979,923	8.7%	932,673	5.8%	423,729	5.7%	-4.8%	-9.1%
14	Extraordinary income	0	0.0%	871	0.0%	0	0.0%	-	-
15	Extraordinary expenses	0	0.0%	345	0.0%	0	0.0%	-	-
IV	PROFIT FROM EXTRAORDINARY ITEMS	0	0.0%	526	0.0%	0	0.0%	-	-
V	PROFIT BEFORE TAX	979,923	8.7%	933,199	5.8%	423,729	5.7%	-4.8%	-9.2%
16	Income tax	51,178	0.5%	74,280	0.5%	19,492	0.3%	45.1%	-47.5%
VI	NET PROFIT (V-16)	928,745	8.2%	910,766	5.7%	404,293	5.4%	-1.9%	-11.2%
	Profit from deferred tax liabilities 51,847					56			
	TOTAL INCOME	11,282,752	100.0%	16,014,349	100.0%	7,441,610	100.0%	41.9%	-7.1%
	TOTAL EXPENSES	10,302,829	91.3%	15,081,150	94.2%	7,017,881	94.3%	46.4%	-6.9%

Structure of investments

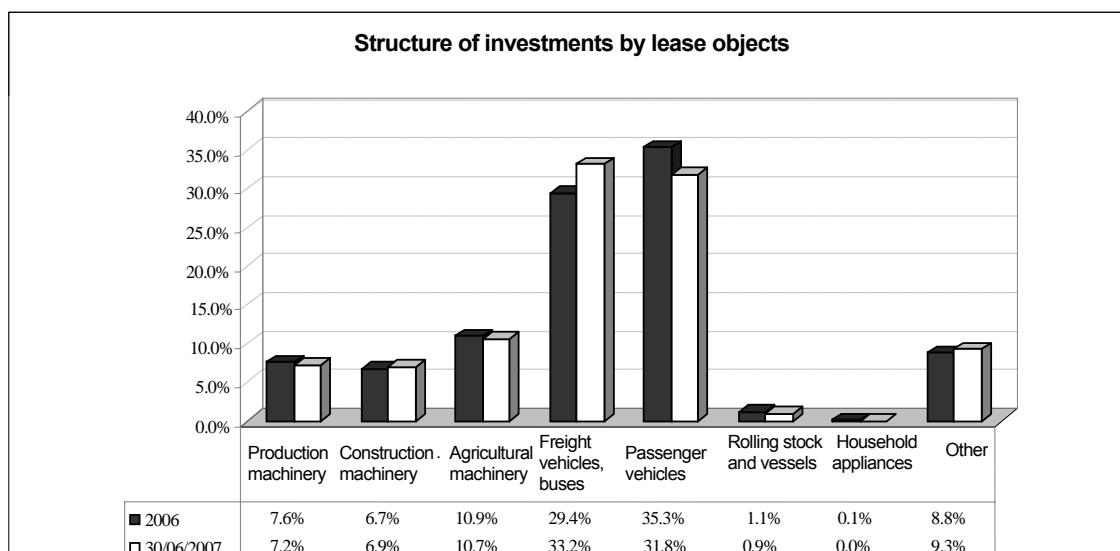
Lessees

The structure of investments by lessees has remained largely unchanged since 2006 – the largest share of financial leasing has been approved to legal entities (79.4%), while natural persons accounted for 10.9%; moreover, the share of legal entities in total investments shows a steady increasing tendency with every new period and this, in most cases, works to reduce the share of natural persons.



Object of financing

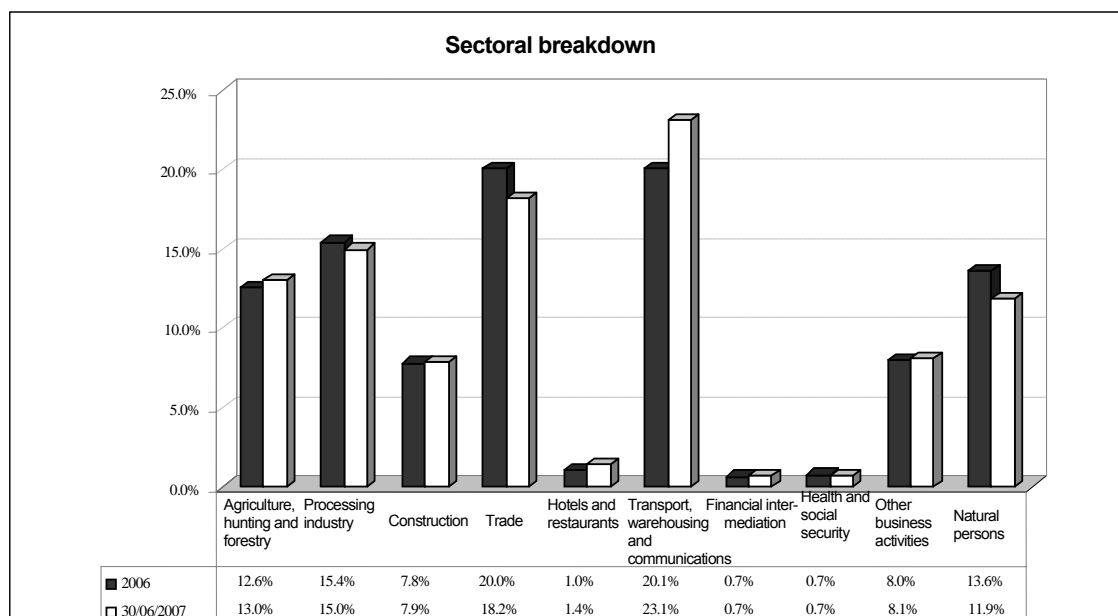
The structure of investments by lease objects has changed compared with 2006 in that the bulk of financing has been approved for financing freight vehicles, coaches and buses – 33.2%, which constitutes an increase from 2006, when the same group of lease objects accounted for 29.4%, while the share of passenger vehicles fell from 35.3% to 31.8%. Agricultural machinery also accounts for a major share of financing through financial leasing (10.7%).



Sectoral breakdown

The sectoral structure of financial lease investments has not suffered any major changes relative to 2006. Sectors with the highest shares include transport, warehousing and communications (23.1%), followed by trade (18.2%), processing industry (15.0%), agriculture, hunting and forestry (13.0%) and

natural persons (11.9%). The difference between the figures provided for natural persons in the sectoral breakdown and in the structure of investments by lessees arose from the fact that some entrepreneurs have not been classified according to their core activity and have consequently been included in the figures for natural persons.



Performance indicators

From the performance indicators presented in Table 6 it can be seen that the return on average assets was negative both in the first half of 2007 and in 2006 and amounted to -0.1% (-0.7% in 2006). This is attributable to the fact that seven leasing companies reported loss before tax in the amount of RSD 161,507 thousand, although the sector as a whole generated profit before tax. Return on average equity was negative for the same reason.

Due to the increasing competition between leasing companies, the average lending rate dropped in the first half of 2007 relative to 2006, while the average deposit rate for the same period increased, which resulted in lower net interest margin.

Because of the recapitalization of two lessors and profitable operation of eight lessors in the first half of 2007, leverage went down to 24 from 29.2 in 2006, which constitutes a positive tendency. Lessors' solvency risk is lower than in 2006, but remains very high. Total debt to equity ratio is 25.3, while the long-term debt to equity ratio is 22.7. Furthermore, unfavourable trends are also reflected in the decline of long-term debt to equity at the expense of increase in short-term debt to equity, so that, as of 30 June 2007, the share of short-term debt (6.4%) was higher than the share of equity (5.6%) in total liabilities.

The ratio of operating expenses to average investments has had a minimal increase in the first half of 2007 relative to 2006 – from 5.7% to 5.9%. An unfavourable trend is also seen in the fact that the coverage of interest expenses plunged from 1.4x to a mere 0.9x, arising from higher interest expenses (36.2% increase per annum) and lower profit before tax (9.2% decrease). One lessor reported loss nearly

twice the amount of interest expenses; if this one lessor were excluded from the calculation of this indicator, the coverage of interest expenses would be 1.1x.

Table 6 – Performance indicators – market average

Performance indicator	31/12/2006			30/06/2007		
	Market average	Min	Max	Market average	Min	Max
Return on average assets (ROA)	-0.7%	-15.4%	3.6%	-0.1%	-7.0%	4.5%
Return on average equity (ROE)*	11.4%	-67.9%	110.5%	-4.3%	-94.2%	47.8%
Net interest margin	4.5%	0.1%	7.3%	3.5%	0.8%	5.4%
Average lending rate	10.3%	5.0%	15.6%	9.8%	5.2%	14.6%
Average deposit rate**	5.8%	0.6%	9.0%	6.1%	3.9%	9.9%
Coverage of interest expenses**	1.4x	-1.9x	8.3x	0.9x	-0.8x	1.8x
Operating expenses to average investments	5.7%	1.6%	17.0%	5.9%	1.8%	17.8%
Total debt to equity*	27.9x	3.7x	111.2x	25.3x	4.1x	71.3x
Long-term debt to equity*	26.9x	2.3x	109.7x	22.7x	4.0x	69.4x

* EFG Leasing a.d. Beograd was excluded from the calculation of indicators as of 30 June 2007, due to the fact that its losses exceeded its equity

** LIPAKS d.o.o Beograd was excluded from the calculation of this indicator as of 30 June 2007 due to extreme values

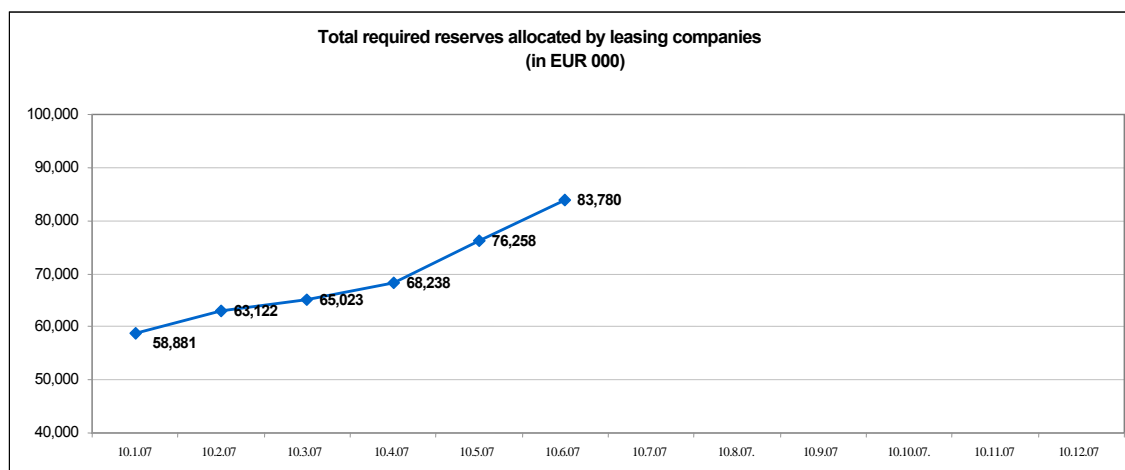
Sogelease Srbija d.o.o Beograd and EFG Leasing a.d. Beograd were excluded from the calculation of all indicators for 2006 due to extreme values attributable to the startup of their business operations

Sources of financing

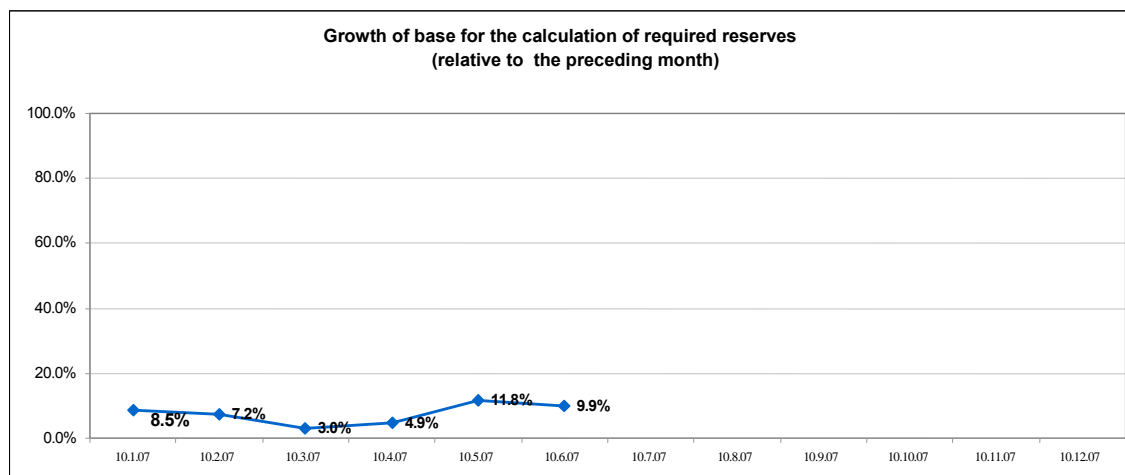
The balance sheet structure indicates that financial leasing investments are mostly financed through foreign borrowing – foreign credit obligation accounted for 85.5% of total liabilities, while financial leasing investments accounted for 82.3% of total assets. Long-term domestic credits suffered a decline compared with 2006 and accounted for a mere 4.7% of total assets. Foreign creditors financial leasing companies are in most cases their founders or legal entities operating within the same banking group.

In early December 2005, an obligation was imposed on leasing companies to allocate, on a monthly basis, reserves for credits, other forms of borrowing and supplementary payments from abroad (other than payment of share capital) used since 10 December 2005. In the first half of 2007, the reserve requirement ratio was 20%, following an increase from the formerly applicable rate of 10% in April 2006.

The amount of reserves has been increased with each accounting period since the introduction of this requirement, as a result of increasing foreign borrowing. The chart below illustrates the movements of the total balance of required reserves allocated by leasing companies in 2007, in EUR thousand:



The base for the calculation and allocation of reserves as of 10 June 2007 was 6.85 times higher than on 10 February 2006, the date of initial calculation and allocation, and amounted to EUR 418.9 million, thus accounting for 48.3% of total foreign credits used by leasing companies. The growth rates of the base for the calculation of required reserves relative to the preceding month have been varying across accounting periods, as can be seen from the following chart:



(Outsourced translation)