

FINANCIAL LEASING SUPERVISION

Second Quarter Report 2008

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Market Participants

Number of lessors

As at 30 June 2008, the list of lessors licensed to engage in financial leasing included:

- | | |
|--|---|
| 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. Novi Sad | 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 | |

According to official sources for the financial leasing sector, both total employment and total assets per employee increased relative to earlier periods. Hence, total assets per employee as at 30 June 2008 equalled RSD 178,297 thousand, up by 2.1% on 31 December 2007 (RSD 174,664 thousand). The average number of employees per leasing provider was 31.2, which is an increase on 31 December 2007 (28.1). However, the number of employees per leasing provider ranged from 8 to 118. Table 1 below shows total employment in the financial leasing sector at end-2005, end-2006, end-2007 and end-Q2 2008:

Table 1 – Number of employees in the financial leasing sector

Date	Number of employees
31 Dec 2005	329
31 Dec 2006	388
31 Dec 2007	478
30 Jun 2008	530

Ownership structure

Domestic vs. foreign ownership

- 11 leasing providers are in 100% or majority ownership of foreign legal entities;
- 5 leasing providers are in 100% or majority ownership of domestic entities (of which 4 are owned by domestic banks with a share of foreign capital);
- 1 leasing provider is jointly owned by a domestic bank with a share of foreign capital and a foreign legal entity, each holding a 50% stake in the leasing provider's capital.

Financial vs. non-financial sector

- Two financial leasing providers (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 this group, as it was founded by a Porsche Group member – a bank specialized in financing Porsche Group products;
- The remaining 14 leasing providers were set up by banks, banking group members or other financial institutions.

Table 2 gives an overview of the ownership structure of leasing providers.

Table 2 – Ownership structure of leasing providers

No.	Leasing provider	Owner	Ownership percentage
1.	UniCredit Leasing Srbija d.o.o. Beograd	UniCredit Global Leasing S.p.A, Vienna branch, 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 LTD, Budapest, Hungary	51 49
4.	OTP Leasing d.o.o. Novi Sad	Merkantil Bank ZRT, Budapest, Hungary OTP banka Srbija a.d. Novi Sad	70 30

No.	Leasing provider	Owner	Ownership percentage
5.	LIPAKS d.o.o. Beograd	Mirko Žeželj	30.40
		Zoran Tanasić	30.40
		"Industrija mašina i traktora " AD Beograd under restructuring	9.52
		Industry of agricultural machinery "Zmaj" AD Zemun – Beograd under restructuring	9.52
		Corporation "Fabrika automobila Priboj" AD, Priboj	9.52
		"Zastava kamioni" d.o.o, Kragujevac	4.76
		Joint stock company for specialized and multipurpose vehicles production and trade	2.38
		"Zastava specijalni automobili", Sombor	
		Sandra Džodić	2.00
		Joint stock company "Ikarbus", Beograd-Zemun	1.19
		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 Banka Srbija 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, Holland	48.63
		Eurobank EFG štedionica 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 June 2008, total balance sheet assets of the leasing sector stood at RSD 103.7 billion, up by 8.9% relative to 2007 (RSD 95.3 billion). The share of receivables in total assets came to 79.3% and was lower than in the prior two years (85.6% in 2006 and 79.5% in 2007). The share of item 'cash and cash equivalents' in total balance sheet assets decreased from 14.5% at end-2007 to 13.8% (9.1% in 2006). Reserves against credits, other loans and supplementary payments from abroad (other than payments for share capital increases), which are included in item 'cash and cash equivalents', added up to 81.2% of its value as at 30 June 2008.

Long-term obligations accounted for the highest share of lessors' liabilities – 88.2% (90.1% in 2006 and 89.8% in 2007), of which long-term foreign credits took up 84.5% (83.6% in 2006 and 86.1% in 2007) and long-term domestic credits 3.5% (6.3% in 2006 and 3.6% in 2007). Short-term obligations accounted for 5.7% of total liabilities (3.7% in 2006 and 3.9% in 2007), of which 3.0% referred to short-term domestic credit (1% in 2006 and 1.6% in 2007). In H1 relative to 2007, total liabilities increased more (8.9%) than capital (7.2%). As a result, the share of capital in total liabilities edged down from 6.2% in 2007 to 6.1% (5.8% in 2006). The largest portion of capital referred to retained earnings (49.3%) and share capital (43.9%). In H1 2008, the main contribution to growth in capital came from the rise in retained earnings (95.6%), while capital increase contributed 4.5%.

Table 3 shows aggregate balance sheet of all leasing providers (in thousand dinars) as at 31 December 2006, 31 December 2007 and 30 June 2008.

Table 3 – Aggregate balance sheet of all leasing providers

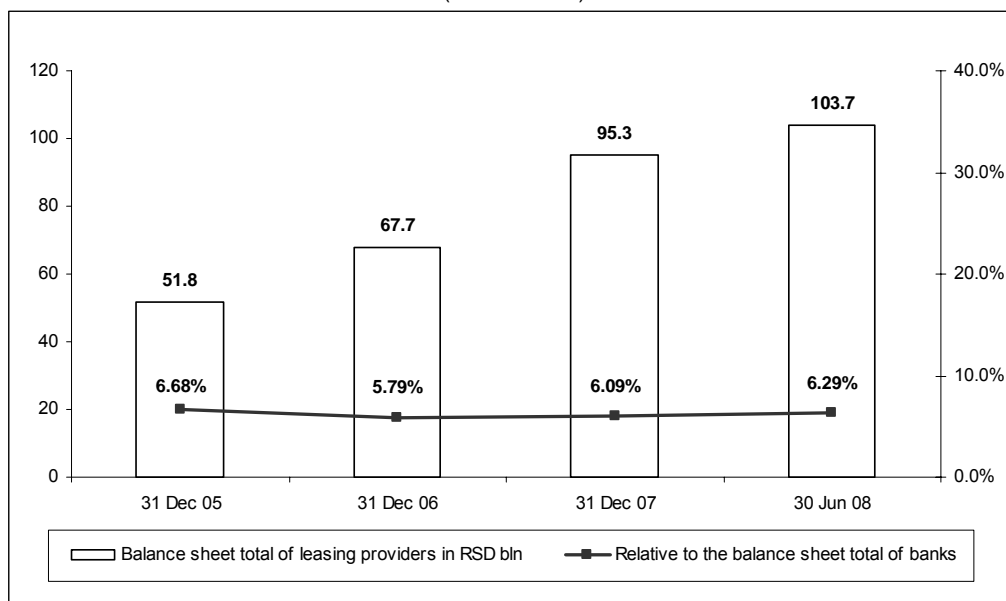
(in 000 RSD)

No.	ITEM	31 Dec 2006		31 Dec 2007		30 Jun 2008		% growth	
		amount	%	amount	%	amount	%	31 Dec 07/ 31 Dec 06	30 Jun 08/ 31 Dec 07
	ASSETS	67,702,703	100.0	95,265,098	100.0	103,714,087	100.0	40.7	8.9
1	FIXED ASSETS	59,417,517	87.8	78,165,000	82.0	85,050,160	82.0	31.6	8.8
1.1	Property, plant and equipment	1,309,297	1.9	1,190,833	1.3	1,092,806	1.1	-9.0	-8.2
1.2	Receivables under financial leasing	57,958,183	85.6	75,764,518	79.5	82,252,475	79.3	30.7	8.6
1.3	Other long-term financial investments	90,232	0.1	1,155,571	1.2	1,652,157	1.6	1180.7	43.0
1.4	Other fixed assets	59,805	0.1	54,078	0.1	52,722	0.1	-9.6	-2.5

No.	ITEM	31 Dec 2006		31 Dec 2007		30 Jun 2008		% growth	
		amount	%	amount	%	amount	%	31 Dec 07/ 31 Dec 06	30 Jun 08/ 31 Dec 07
2	CURRENT ASSETS	8,285,186	12.2	17,100,098	18.0	18,663,927	18.0	106.4	9.1
2.1	Cash and cash equivalents	6,164,135	9.1	13,853,074	14.5	14,362,784	13.8	124.7	3.7
2.2	Short-term financial investment and receivables	596,401	0.9	1,289,783	1.4	849,444	0.8	116.3	-34.1
2.3	Other current assets	1,524,650	2.3	1,957,241	2.1	3,451,699	3.3	28.4	76.4
	LIABILITIES	67,702,703	100.0	95,265,098	100.0	103,714,087	100.0	40.7	8.9
1	CAPITAL	3,910,832	5.8	5,901,680	6.2	6,324,789	6.1	50.9	7.2
1.1	Share capital	1,904,609	2.8	2,656,205	2.8	2,681,315	2.6	39.5	0.9
1.2	Subscribed uncalled capital	0	0.0	0	0.0	0	0.0	-	-
1.3	Reserves	779,426	1.2	1,281,114	1.3	1,281,114	1.2	64.4	0.0
1.4	Revaluation reserves	0	0.0	0	0.0	0	0.0	-	-
1.5	Retained earnings	1,661,771	2.5	2,579,978	2.7	3,119,486	3.0	55.3	20.9
1.6	Losses	434,974	0.6	615,617	0.6	757,126	0.7	41.5	23.0
1.7	Purchased own shares	0	0.0	0	0.0	0	0.0	-	-
2	LONG-TERM PROVISIONING AND LIABILITIES	61,320,533	90.6	85,630,081	89.9	91,513,497	88.2	39.6	6.9
2.1	Long-term provisions	291,916	0.4	79,981	0.1	80,824	0.1	-72.6	1.1
2.2	Long-term liabilities	61,028,617	90.1	85,550,100	89.8	91,432,673	88.2	40.2	6.9
2.2.1	Long-term domestic credit	4,292,567	6.3	3,405,318	3.6	3,591,046	3.5	-20.7	5.5
2.2.2	Long-term foreign credit	56,587,279	83.6	81,987,630	86.1	87,684,771	84.5	44.9	6.9
2.2.3	Other long-term liabilities	148,771	0.2	157,152	0.2	156,856	0.2	5.6	-0.2
3	SHORT-TERM LIABILITIES	2,471,338	3.7	3,733,337	3.9	5,875,801	5.7	51.1	57.4
3.1	Short-term financial liabilities	647,589	1.0	1,517,343	1.6	3,159,661	3.0	134.3	108.2
3.1.1	Short-term domestic credit	646,327	1.0	1,502,716	1.6	3,158,108	3.0	132.5	110.2
3.1.2	Short-term foreign credit	0	0.0	0	0.0	0	0.0	-	-
3.1.3	Other short-term financial liabilities	1,262	0.0	14,627	0.0	1,553	0.0	1059.0	-89.4
3.2	Other	1,823,749	2.7	2,215,994	2.3	2,716,140	2.6	21.5	22.6

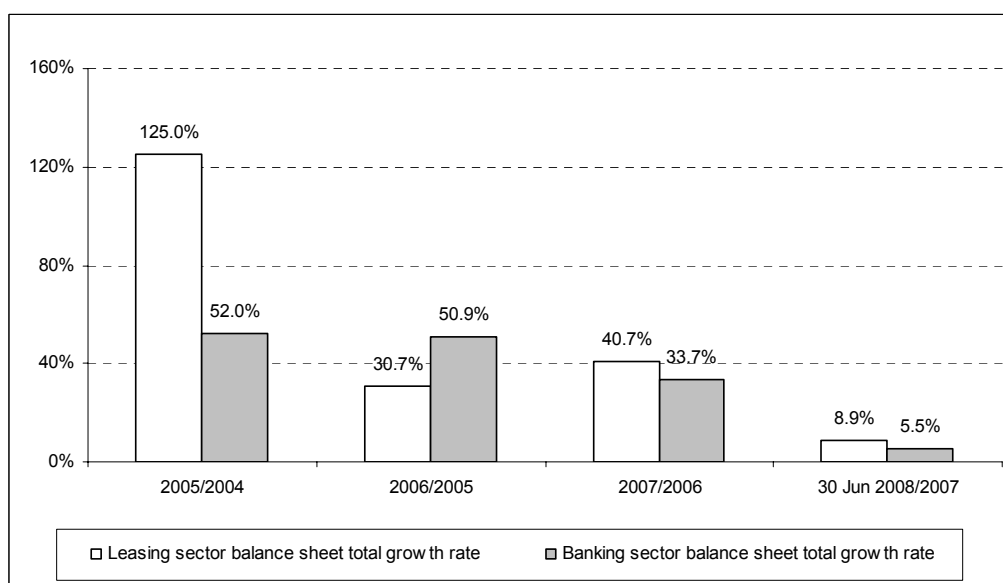
As at 30 June 2008, the ratio of the balance sheet total of leasing providers to banking sector balance sheet total equalled 6.29%. In 2006, this ratio declined relative to 2005, only to begin increasing moderately in 2007 and H1 2008, as illustrated by Chart 1.

Chart 1. **Balance sheet total of banks and leasing providers**
(in RSD billion)



From 31 December 2007 until 30 June 2008, balance sheet total of leasing providers rose by 8.9%, while banking sector balance sheet total went up by 5.5%. As a result, the ratio of the balance sheet total of leasing providers to banking sector balance sheet total changed. Chart 2 illustrates balance sheet total growth rates for both leasing providers and the banking sector.

Chart 2. **Growth rates of the balance sheet total of leasing providers and banks**



Market share

In order to analyse the structure of the financial leasing market and the level of competition among different leasing providers, calculations were made of individual and cumulative market shares of leasing providers' balance sheet totals, as well as of the Herfindahl-Hirschman index (HHI).

Table 4 – Market share of leasing providers

Position	Leasing provider	Balance sheet assets (in 000 RSD)	Share in 2007	Cumulative share in 2007	Position	Leasing provider	Balance sheet assets (in 000 RSD)	Share in 2008	Cumulative share in 2008
1.	Hypo Alpe-Adria-Leasing d.o.o. Beograd	27,988,895	29.4%	29.4%	1.	Hypo Alpe-Adria-Leasing d.o.o. Beograd	31,328,329	30.2%	30.2%
2.	Raiffeisen Leasing d.o.o. Beograd	16,623,828	17.5%	46.9%	2.	Raiffeisen Leasing d.o.o. Beograd	16,551,432	16.0%	46.2%
3.	NLB Leasing d.o.o. Beograd	10,235,315	10.7%	57.6%	3.	NLB Leasing d.o.o. Beograd	10,776,636	10.4%	56.6%
4.	S-Leasing d.o.o. Beograd	8,979,995	9.4%	67.0%	4.	S-Leasing d.o.o. Beograd	9,149,292	8.8%	65.4%
5.	VB Leasing d.o.o. Beograd	5,974,661	6.3%	73.3%	5.	VB Leasing d.o.o. Beograd	6,738,659	6.5%	71.9%
6.	UniCredit Leasing Srbija d.o.o. Beograd	5,399,305	5.6%	78.9%	6.	UniCredit Leasing Srbija d.o.o. Beograd	4,716,008	4.5%	76.4%
7.	Porsche Leasing SCG d.o.o. Beograd	4,057,495	4.3%	83.2%	7.	Intesa Leasing d.o.o. Beograd	4,582,618	4.4%	80.8%
8.	Intesa Leasing d.o.o. Beograd	3,585,755	3.8%	87.0%	8.	Porsche Leasing SCG d.o.o. Beograd	4,065,351	4.0%	84.8%
9.	LIPAKS d.o.o. Beograd	3,569,782	3.7%	90.7%	9.	LIPAKS d.o.o. Beograd	3,463,518	3.3%	88.1%
10.	Procredit Leasing d.o.o. Beograd	2,167,650	2.3%	93.0%	10.	EFG Leasing a.d. Beograd	3,022,882	2.9%	91.0%
11.	EFG Leasing a.d. Beograd	1,882,511	2.0%	95.0%	11.	NBG Lizing d.o.o. Beograd	2,601,213	2.5%	93.5%
12.	Sogelease Srbija d.o.o. Beograd	1,773,021	1.8%	96.8%	12.	Procredit Leasing d.o.o. Beograd	2,392,903	2.3%	95.8%
13.	NBG Lizing d.o.o. Beograd	1,494,225	1.6%	98.4%	13.	Sogelease Srbija d.o.o. Beograd	2,353,990	2.3%	98.1%
14.	Zastava Istrabenz Lizing d.o.o. Beograd	567,664	0.6%	99.0%	14.	Piraeus Leasing d.o.o. Beograd	776,781	0.7%	98.8%

Position	Leasing provider	Balance sheet assets (in 000 RSD)	Share in 2007	Cumulative share in 2007	Position	Leasing provider	Balance sheet assets (in 000 RSD)	Share in 2008	Cumulative share in 2008
15.	Meridian Leasing d.o.o. Beograd	558,401	0.6%	99.6%	15.	Meridian Leasing d.o.o. Beograd	571,469	0.6%	99.4%
16.	Piraeus Leasing d.o.o. Beograd	314,358	0.3%	99.9%	16.	Zastava Istrabenz Lizing d.o.o. Beograd	531,225	0.5%	99.9%
17.	OTP Leasing d.o.o. Novi Sad	92,237	0.1%	100.0%	17.	OTP Leasing d.o.o. Novi Sad	91,781	0.1%	100.0%
TOTAL		95,265,098	100.0%	-	TOTAL		103,714,087	100.0%	-
Herfindahl-Hirschman index			1,505.6	Herfindahl-Hirschman index			1,488.2		

As Table 4 shows, there were no significant changes in the ranking of leasing providers by market share. In 2008, the top four leasing providers (Hypo Alpe-Adria-Leasing d.o.o. Beograd, Raiffeisen Leasing d.o.o. Beograd, NLB Leasing d.o.o. Beograd and S-Leasing d.o.o. Beograd) accounted for around two-thirds of the market.

The financial leasing market in Serbia is moderately concentrated. The level of competition has been steadily rising, as indicated by the HHI which declined from 1,505.6 in 2007 down to 1,488.2 in H1 2008.

Ranking changes affected the following leasing providers in H1 2008:

- Intesa Leasing d.o.o. Beograd ranked eighth in 2007 and seventh in H1 2008, with its market share up from 3.8% to 4.4%,
- Porsche Leasing SCG d.o.o. Beograd ranked seventh in 2007 and eighth in H1 2008, with its market share down from 4.3% to 4.0%,
- EFG Leasing a.d. Beograd ranked eleventh in 2007 and tenth in H1 2008, with its market share up from 2.0% to 2.9%,
- NBG Lizing d.o.o. Beograd ranked thirteenth in 2007 and eleventh in H1 2008, with its market share up from 1.6% to 2.5%,
- Procredit Leasing d.o.o. Beograd ranked tenth in 2007 and twelfth in H1 2008, with its market share unchanged at 2.3%,
- Sogelease Srbija d.o.o. Beograd ranked twelfth in 2007 and thirteenth in H1 2008, although its market share rose from 1.8% to 2.3%,
- Piraeus Leasing d.o.o. Beograd ranked sixteenth in 2007 and fourteenth in H1 2008, with its market share up from 0.3% to 0.7%,
- Zastava Istrabenz Lizing d.o.o. Beograd ranked fourteenth in 2007 and sixteenth in H1 2008, with its market share down from 0.6% to 0.5%.

Profit and loss account

In H1 2008, total profit before tax of all financial leasing providers taken together came to RSD 431,447 thousand, down by 42.5% (year-on-year) compared to 2007 when it stood at RSD 1,501,664 thousand.

Exchange rate gains were the most significant category of lessor income, accounting for 73.6% (61.4% in 2006 and 70.0% in 2007). Interest income accounted for 21.8% (33.2% in 2006 and 24.7% in 2007), and operating income for 2.1% (3.7% in 2006 and 2.7% in 2007).

Exchange rate losses took up the largest share of total expenses – 76.3% (66.7% in 2006 and 72.2% in 2007), accounting for 74.5% of total income. Other major expense items were interest expenses – 14.2% of total expenses (16.8% in 2006 and 14.9% in 2007) or 13.9% of total income, and operating expenses – 7.4% of total expenses (13.9% in 2006 and 8.9% in 2007) or 7.2% of total income.

Relative to 2007, total income increased by 32.6% and total expenses – by 37.0%. As a result, the share of net profit before tax in total income decreased from 5.5% in 2007 to 2.4% in H1 2008.

Table 5 shows the aggregate profit and loss account of all leasing providers (in thousand dinars) as at 31 December 2006, 31 December 2007 and 30 June 2008.

Table 5 – Aggregate profit and loss account of leasing providers

(in 000 RSD)

N o.	ITEM	1 Jan – 31 Dec 06	% of total income	1 Jan – 31 Dec 07	% of total income	1 Jan – 30 Jun 08	% of total income	% of growth 2007/2006	% of growth 30 Jun 08/ 31 Dec 07 (p.a.)
	OPERATING INCOME	586,586	3.7	735,969	2.7	384,575	2.1	25.5	4.5
1	Net sales income	307,076	1.9	473,895	1.7	250,819	1.4	54.3	5.9
2	Other operating income	279,510	1.7	262,074	1.0	133,756	0.7	-6.2	2.1
	OPERATING EXPENSES	2,099,039	13.1	2,272,822	8.4	1,303,665	7.2	8.3	14.7
3	Earnings, fees, salaries and other personal expenses	536,672	3.4	631,483	2.3	411,615	2.3	17.7	30.4
4	Depreciation and provisioning	463,178	2.9	303,524	1.1	138,583	0.8	-34.5	-8.7
5	Other operating expenses	1,099,189	6.9	1,337,815	4.9	753,467	4.2	21.7	12.6
I	OPERATING RESULT	-1,512,453	-9.4	-1,536,853	-5.7	-919,090	-5.1	1.6	19.6

	FINANCIAL INCOME	15,179,013	94.8	25,752,643	94.8	17,188,226	95.4	69.7	33.5
6	Interest income	5,312,294	33.2	6,708,586	24.7	3,920,434	21.8	26.3	16.9
7	Exchange rate gains	9,825,021	61.4	18,999,341	70.0	13,249,256	73.6	93.4	39.5
8	Other	41,698	0.3	44,716	0.2	18,536	0.1	7.2	-17.1
	FINANCIAL EXPENSES	12,616,849	78.8	22,367,810	82.4	15,915,836	88.4	77.3	42.3
9	Interest expenses	2,539,633	15.9	3,834,943	14.1	2,504,098	13.9	51.0	30.6
10	Exchange rate losses	10,053,966	62.8	18,527,738	68.2	13,409,691	74.5	84.3	44.8
11	Other	23,250	0.1	5,129	0.0	2,047	0.0	-77.9	-20.2
II	FINANCIAL RESULT	2,562,164	16.0	3,384,833	12.5	1,272,390	7.1	32.1	-24.8
12	Other income	247,879	1.5	670,928	2.5	438,578	2.4	170.7	30.7
13	Other expenses	364,917	2.3	1,017,231	3.7	360,454	2.0	178.8	-29.1
III	REGULAR OPERATING RESULT	932,673	5.8	1,501,677	5.5	431,424	2.4	61.0	-42.5
14	Extraordinary income	871	0.0	0	0.0	23	0.0	-100.0	-
15	Extraordinary expenses	345	0.0	13	0.0	0	0.0	-96.2	-100.0
I V	RESULT WITH RESPECT TO EXTRAORDINARY ITEMS	526	0.0	-13	0.0	23	0.0	-102.5	-453.8
V	PRE-TAX RESULT	933,199	5.8	1,501,664	5.5	431,447	2.4	60.9	-42.5
16	Income tax	74,280	0.5	188,937	0.7	24,432	0.1	154.4	-74.1
17	Income from deferred tax assets/liabilities	51847	0.3	17,196	0.1	101	0.0	-66.8	-98.8
V I	NET RESULT (V-16+17)	910,766	5.7	1,329,923	4.9	407,116	2.3	46.0	-38.8
	TOTAL INCOME	16,014,349	100.0	27,159,540	100.0	18,011,402	100.0	69.6	32.6
	TOTAL EXPENSES	15,081,150	94.2	25,657,876	94.5	17,579,955	97.6	70.1	37.0

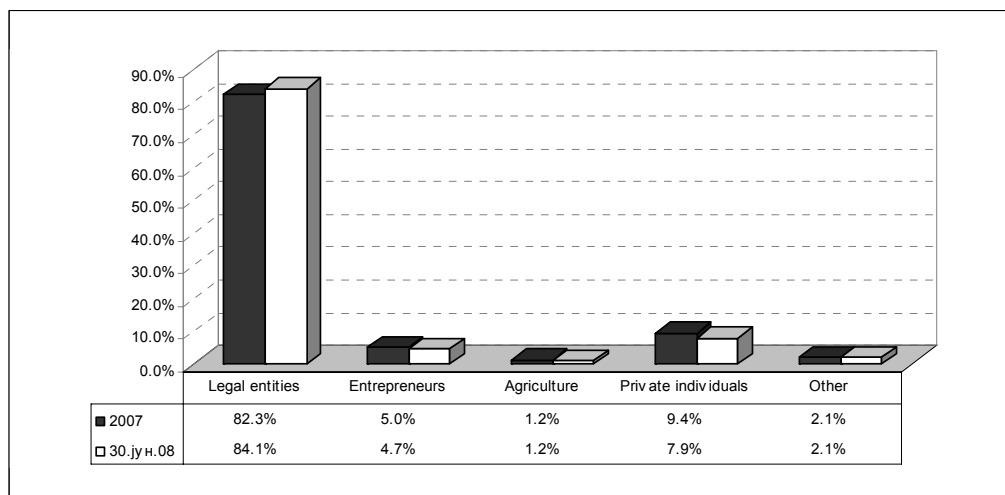
Structure of Investments

Lessees

In H1 2008, the structure of financial lease investment by lessee (Chart 3) remained broadly unchanged from 2007 – legal entities accounted for a major share of total financial lease investments (84.1%), while private individuals

held 7.9%. The share of investments to legal entities has been on a steady rise, mainly at the cost of a declining share of investments to private individuals.

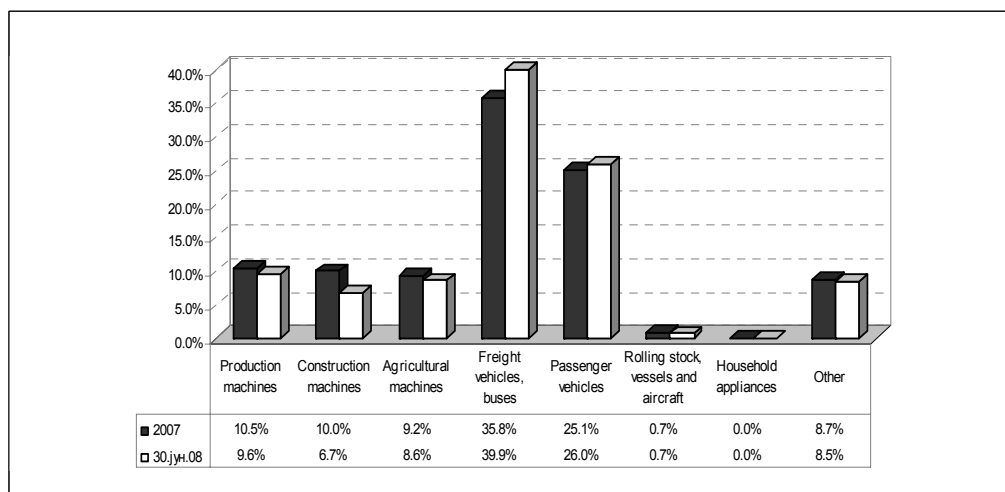
Chart 3. Investment structure by lessee



Object of financing

The structure of financial lease investment by lease object (Chart 4) reveals that the share of financing of freight vehicles, minibuses and buses continued rising in H1 2008 to reach 39.9% (35.8% in 2007). Relative to 2007, financing of passenger vehicles rose from 25.1% to 26.0%. The sharpest decline was recorded for the financing of construction machinery (from 10.0% to 6.7%), production machinery (from 10.5% to 9.6%) and agricultural equipment (from 9.2% to 8.6%).

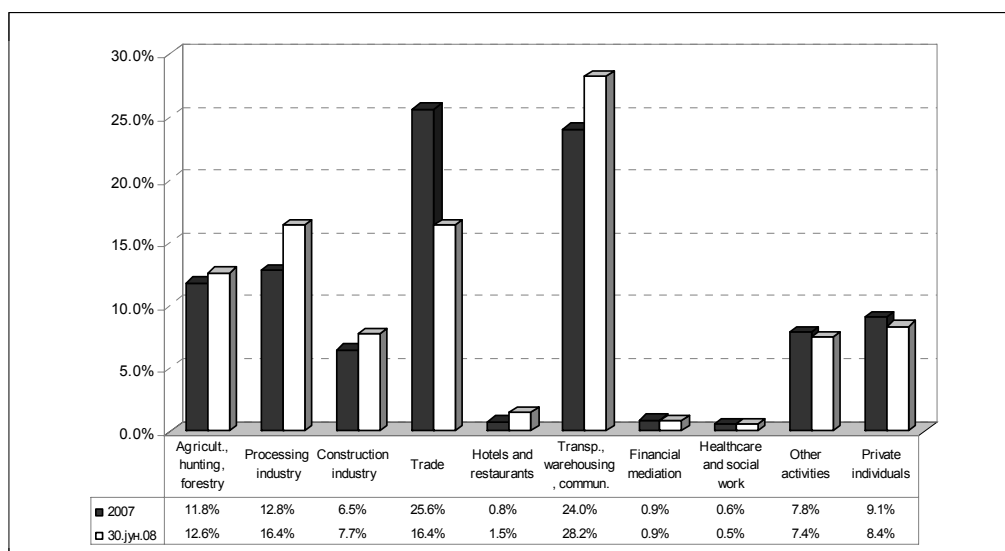
Chart 4. Investment structure by lease object



Sector

The structure of financial lease investment by sector (Chart 5) changed relative to 2007. The most significant share referred to transport, warehousing and communications (28.2%), followed by the processing industry (16.4%), trade sector (16.4%), agriculture, hunting and forestry (12.6%) and private individuals (8.4%). The difference in data for private individuals in the structure by sector relative to the structure by lessee is due to the fact that some entrepreneurs were classified as private individuals, instead of being classified according to their core activity.

Chart 5. Investment structure by sector



Performance Indicators

For the purpose of financial leasing market analysis, two different approaches were used to calculate performance indicators. Table 6 shows average values of performance indicators calculated for each individual leasing provider, based on data presented in the LBS and LBU Forms. Table 7 shows aggregate performance indicators, calculated by summing up the relevant positions from the LBS and LBU Forms for all leasing providers and using the sums obtained to calculate performance indicators.

Performance indicators, including, in particular, the decline in return on assets and return on equity (as measured by the aggregate market indicator),

point to a worsening of the financial leasing market overall in H1 2008 relative to 2007.

Table 6 – Performance indicators – average for the market

PERFORMANCE INDICATOR	31 Dec 2007			30 Jun 2008		
	Market average	Min	Max	Market average	Min	Max
Return on assets (ROA)	-0.1%	-6.2%	5.1%	-0.5%	-9.0%	5.8%
Return on equity (ROE)*	2.9%	-85.2%	63.7%	-7.0%	-144.5%	83.8%
Net interest margin	4.5%	1.5%	20.1%	3.7%	0.8%	14.7%
Average lending rate	11.0%	5.9%	27.4%	10.0%	6.1%	14.7%
Average deposit rate**	6.7%	4.2%	19.8%	5.8%	3.4%	8.6%
Coverage of interest expenses**	1.0x	0.1x	2.3x	0.8x	-2.6x	1.8x
Operating expenses to average investment	4.9%	1.6%	10.2%	6.5%	1.3%	24.9%
Total debt to equity*	26.0x	0.0x	78.7x	32.4x	0.0x	131.1x
Long-term debt to equity*	22.2x	0.0x	48.7x	29.0x	0.0x	123.5x

*EFG Leasing a.d. Beograd was excluded from the calculation of indicators as at 31 December 2007 as its losses exceeded its equity in 2006.

**LIPAKS a.d. Beograd was excluded from the calculation of the indicator as at 31 December 2007 due to extreme values, while LIPAKS d.o.o. Beograd and OTP Leasing d.o.o. Novi Sad were excluded from the calculation of the indicator as at 30 June 2008.

Meridian Leasing d.o.o. Beograd and Piraeus Leasing d.o.o. Beograd were excluded from the calculation of all indicators for 2007, on account of extreme values attributable to the start-up of their business operations.

Table 7 – Performance indicators – aggregate for the market

PERFORMANCE INDICATOR	31 Dec 2007	30 Jun 2008
Return on assets (ROA)	1.84%	0.87%
Return on equity (ROE)	30.61%	14.12%
Net interest margin	4.30%	3.59%
Average lending rate	10.03%	9.92%
Average deposit rate	5.16%	5.51%
Coverage of interest expenses	1.39x	1.17x
Operating expenses to average investment	3.40%	3.30%
Total debt to equity	15.14x	15.40x
Long-term debt to equity	14.51x	14.47x

Hence, the average lending rate declined and the average deposit rate went up (as measured by the aggregate market indicator), inducing a decline in the net interest margin.

Solvency risk exposure of leasing providers increased still further relative to 2007. Total debt was 15.4 times higher than capital, while long-term debt was 14.47 times higher than capital. On top, the share of long-term domestic debt in total liabilities declined, whereas short-term domestic debt increased.

The ratio of operating expenses to average lease investment declined in H1 2008 relative to 2007, reflecting a steady increase in the efficiency of the financial leasing sector. However, coverage of interest expenses declined, as interest expenses went up and profit before taxes went down relative to 2007.

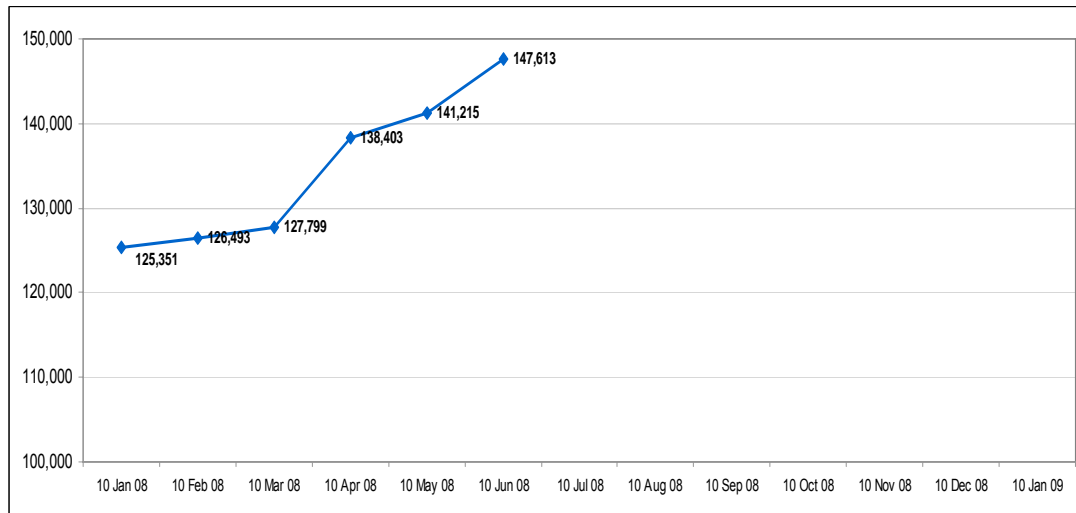
Sources of Financing

Balance sheet structure indicates that the largest portion of financial leasing investment was financed from foreign borrowing – as at 30 June 2008, foreign credit obligations made up 84.5% of total liabilities, while financial leasing investment accounted for 79.3% of total assets. The share of long-term domestic credits declined relative to 2007, from 3.6% down to 3.5% of total liabilities. In the majority of cases, foreign creditors of financial leasing providers are either their founders or legal entities operating within the same banking group.

In early December 2005, an obligation was introduced for leasing providers to allocate reserves against credits, other loans and supplementary payments from abroad (other than payments for share capital increases) used from 10 December 2005 onwards. The prescribed reserve ratio initially equalled 10%, but was raised to 20% in April 2006.

Since the introduction of the reserve requirement, allocations to reserves rose from one maintenance period to the next as borrowing abroad was rising steadily. Changes in total reserves allocated by leasing providers in H1 2008 (in thousand euros) are illustrated by Chart 6 below.

Chart 6. Total allocated reserves of leasing providers
(in EUR thousand)



From 10 February 2006 until 10 July 2008, the reserving base increased 14 times to reach EUR 759 million. The above base for calculating and allocating reserves against credits, other loans and supplementary payments from abroad (other than payments for share capital increases) used and/or received by leasing providers from 10 December 2005 onwards was equal to 68.39% of total credits used and/or received from abroad by leasing providers.

Reserving base growth rates relative to the preceding month, which varied in H1 2008 from one maintenance period to another, are illustrated in Chart 7 below.

Chart 7. Reserving base growth rate
(relative to the preceding month)

