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TRANSLATION

Independent Auditors' Report

TO THE OWNERS OF

INTESA LEASING D.O.O. BEOGRAD

Report on financial statements

We have audited the accompanying financial statements of Intesa Leasing d.o.o. Beograd ("the Company"), which comprise the statement of financial position as at 31 December 2016, the income statement, the statement of other comprehensive income, the statement of changes in equity and cash flow statement for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting regulation applicable in the Republic of Serbia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Law on Auditing and applicable audit standards in the Republic of Serbia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with the accounting regulation applicable in the Republic of Serbia.

Report on Other Legal and Regulatory Requirements

In accordance with the Law on Accounting of the Republic of Serbia, the Company is responsible for the preparation of the accompanying annual business report. Our responsibility is to express an opinion on consistency of the annual business report with the financial statements for year ended 31 December 2016. In this regard, we performed procedures in accordance with the applicable audit standard – *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*, which are limited to the assessment of consistency of the annual business report with the financial statements.

In our opinion, the annual business report is consistent with the audited financial statements.

Belgrade, 14 February 2017 KPMG d.o.o. Beograd

(L.S.)

Dušan Tomić
Certified Auditor

This is a translation of the original Independent Auditors' Report issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

Belgrade, 14 February 2017 KPMG d.o.o. Beograd

DRUŠTVO ZA KONSALTING I REVIZIJU D.O.O. KPMG 1 BEOGRAD

(L.S.)

Dušan Tomić
Certified Auditor

STATEMENT OF PROFIT OR LOSS FOR THE PERIOD 1 JANUARY TO 31 DECEMBER

In thousands of RSD	Notes	2016	2015
INCOME AND EXPENSES FROM OPERATING ACTIVITIES			
Interest income	5	421,840	397,018
Interest expenses	5	(176,012)	(132,936)
Net interest income		**245,828**	**264,082**
Fee and commission income	6	103,642	82,859
Fee and commission expenses	6	(66,618)	(49,549)
Net fee and commission income		**37,024**	**33,310**
Net gains from financial assets available for sale		592	-
Net foreign exchange gains and net gains from foreign exchange clause	7	876	5,194
Other operating income	8	29,204	12,996
Net impairment gains / (loss) on finance lease receivables	9	25,925	(12,859)
Net gains from changes in value of repossessed leased assets	10	768	1,633
OPERATING PROFIT		**340,217**	**304,356**
Costs of salaries, benefits and other personal expenses	11	(92,661)	(85,882)
Depreciation and amortization	12	(6,169)	(7,358)
Other expenses	13	(73,728)	(55,891)
PROFIT BEFORE TAX		**167,659**	**155,225**
Current tax expense	14	(30,323)	(25,535)
Deferred tax expense	14	(265)	(266)
PROFIT FOR THE PERIOD		**137,071**	**129,424**

Belgrade, 14 February 2017

Report prepared by:	Legal representative:
Predrag Topalović	Nebojša Janićijević

TRANSLATION NOTE: This is a translation of the original document issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY TO 31 DECEMBER

In thousands of RSD	Notes	2016	2015
PROFIT FOR THE PERIOD		**137,071**	**129,424**
Other comprehensive income			
Items of other comprehensive income that may be reclassified to profit or loss			
Positive effects of fair value adjustments on financial assets available for sale		6,596	15,253
Net income taxes relating to other comprehensive income		(989)	(2,288)
OTHER COMPREHENSIVE INCOME		**5,607**	**12,965**
TOTAL COMPREHENSIVE INCOME		**142,678**	**142,389**

Belgrade, 14 February 2017

Report prepared by:
Predrag Topalović

Legal representative:
Nebojša Janićijević

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED AS AT 31 DECEMBER

In thousands of RSD	Notes	2016 Closing balance	2015 Closing balance
ASSETS			
Cash	15	75,128	1,240,864
Financial placements held with banks	16	1,767,255	-
Other financial placements and derivatives	17	1,008,076	987,953
Receivables from finance lease activities	18	9,494,021	6,793,808
Repossessed leased assets and inventories	19	417,379	96,579
Intangible assets	20	8,505	8,858
Property, plant and equipment	21	8,799	6,412
Deferred tax assets	14	2,121	2,386
Other assets	22	21,416	226,375
TOTAL ASSETS		**12,802,700**	**9,363,235**
EQUITY AND LIABILITIES			
LIABILITIES			
Borrowings from banks and other financial institutions	23	10,906,564	7,325,543
Provisions	24	238	227
Current tax liabilities		7,426	5,340
Other liabilities	25	902,398	400,331
TOTAL LIABILITIES		**11,816,626**	**7,731,441**
EQUITY			
Stake capital	26	960,374	960,374
Reserves, revaluation reserves and unrealized gains and losses	27	11,229	4,633
Retained earnings	28	14,471	666,787
TOTAL EQUITY		**986,074**	**1,631,794**
TOTAL LIABILITIES AND EQUITY		**12,802,700**	**9,363,235**

Belgrade, 14 February 2017

Report prepared by:
Predrag Topalović

Legal representative:
Nebojša Janićijević

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD 1 JANUARY TO 31 DECEMBER

In thousands of RSD	Stake capital	Retained earnings	Unrealized gains on securities	Unrealized losses on securities	Total
Balance as at 1 January 2015	**960,374**	**662,863**	**-**	**(10,620)**	**1,612,617**
Increase for the year	-	-	4,633	-	4,633
Decrease for the year	-	-	-	10,620	10,620
Transactions with owners of the Company					
Dividends	-	(125,500)	-	-	(125,500)
Profit for the period	-	129,424	-	-	129,424
Balance as at 31 December 2015	**960,374**	**666,787**	**4,633**	**-**	**1,631,794**
Balance as at 1 January 2016	**960,374**	**666,787**	**4,633**	-	**1,631,794**
Increase for the year	-	-	6,596	-	6,596
Transactions with owners of the Company					
Dividends	-	(789,387)	-	-	(789,387)
Profit for the period	-	137,071	-	-	137,071
Balance as at 31 December 2016	**960,374**	**14,471**	**11,229**	**-**	**986,074**

Belgrade, 14 February 2017

Report prepared by:
Predrag Topalović

Legal representative:
Nebojša Janićijević

CASH FLOW STATEMENT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER

In thousands of RSD	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	**6,497,494**	**5,001,965**
Receipts from finance lease placements	4,622,742	4,106,108
Receipts and advances received from finance lease activities	1,540,857	872,145
Receipts from rent and sales and other advances received	1,471	7,296
Other receipts from operating activities	332,424	16,416
Cash outflow from operating activities	**(9,258,775)**	**(5,676,854)**
Payment of liabilities and advance payments related to finance lease activities	(8,818,923)	(5,296,465)
Other payments and advances paid	(93,361)	(98,675)
Salaries, fringe benefits and other personal expenses paid	(95,291)	(96,057)
Income tax paid	(28,237)	(4,716)
Payments for other public charges	(47,195)	(9,240)
Other payments from operating activities	(175,768)	(171,701)
Net cash flows from operating activities	**(2,761,281)**	**(674,889)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	**522,165**	**4,454,981**
Sale of financial instruments	487,161	863,760
Other inflows from investing activities	-	3,565,871
Interest received from investing activities	35,004	25,350
Cash outflow from investing activities	**(481,791)**	**(2,470,822)**
Purchase of financial instruments	(481,791)	(977,165)
Other financial placements	-	(1,493,657)
Net cash flows from investing activities	**40,374**	**1,984,159**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflow from financing activities	**10,627,997**	**4,082,102**
Increase in borrowings	10,627,997	4,082,102
Cash outflow from financing activities	**(7,301,388)**	**(4,183,625)**
Decrease in borrowings	(7,171,116)	(4,183,625)
Dividends paid	(125,500)	-
Other payments from financial activities	(4,772)	-
Net cash flows from financing activities	**3,326,609**	**(101,523)**
Net cash inflow/(outflow)	**605,702**	**1,207,747**
Cash and cash equivalents at the beginning of period	**1,240,864**	**35,187**
Exchange rate gains on cash translation	**207**	**440**
Exchange rate losses on cash translation	**(4,390)**	**(2,510)**
Cash and cash equivalents at the end of period	**1,842,383**	**1,240,864**

Belgrade, 14 February 2017

Report prepared by:
Predrag Topalović

Legal representative:
Nebojša Janićijević

INTESA LEASING d.o.o. BEOGRAD

NOTES TO THE FINANCIAL STATEMENTS FOR 2016

CONTENTS:

1. BACKGROUND INFORMATION ON THE COMPANY INTESA LEASING d.o.o. BEOGRAD

The leasing company "Intesa Leasing" d.o.o. Beograd (hereinafter: "the Company") was established based on the decision of the Commercial Court on 3 September 2003, (formerly: "Delta Leasing"). The Company was reregistered in the Companies Register with the Serbian Business Registers Agency on 25 July 2005 based on the Decision no. 82785/2005.

The Company's change of name into Intesa Leasing d.o.o. Beograd was registered on 16 December 2005 pursuant to the Decision of the Serbian Business Registers Agency no. 100536/2005.

On 16 December 2005, pursuant to the aforementioned Decision of the Serbian Business Registers Agency, a capital increase was registered, so that total initial capital amounted to EUR 350,000 as of that date.

Pursuant to the Decision of the Serbian Business Registers Agency no. 112635/2006 dated 27 March 2006, the stake capital structure was changed. The stake held by the founder, Banca Intesa a.d. Beograd, amounted to 51% in total capital, while the stake held by the foreign owner, CIB Leasing LTD, Budapest, Hungary, in total capital amounted to 49%.

Pursuant to the Decision of the Serbian Business Register Agency no. 254739/2006 dated 29 December 2006, a new capital increase in the Company was carried out. The stake capital was increased to EUR 5,350,000, while the proportions of the respective founders' stakes remained the same.

Pursuant to the Decision of the Serbian Business Registers Agency no. 29167/2009 dated 31 March 2009, a new capital increase in the Company was performed. Stake capital was increased to EUR 10,152,452.62, with a change in the proportions of the respective founders' stakes. The share of Banca Intesa a.d. Beograd in total stake capital increased to 98.7%, while the share of founder from abroad, CIB Leasing LTD, Budapest, decreased to 1.3%.

In 2011, Banca Intesa a.d. Beograd purchased the stake of the minority stakeholder CIB Leasing LTD, Budapest. Pursuant to the Decision of the Serbian Business Registers Agency no. 155596/2011 dated 19 December 2011, the change of the founders was registered, whereby Banca Intesa a.d. Beograd was inscribed as the sole owner of the Company.

The Company is registered for finance lease activities pursuant to the Decision of the National Bank of Serbia dated 24 January 2006, based on which finance lease activities were harmonized with the Law on Financial Leasing. ("RS Official Gazette", no. 55/2003, 61/2005, 31/2001 and 99/2011).

The Company operates in accordance with the requirements of the Law on Financial Leasing ("RS Official Gazette", no. 55/2003, 61/2005, 31/2011 and 99/2011). The Company's industry code set by the appropriate authority is 6491.

Pursuant to the Decision of the National Bank of Serbia dated 6 May 2016, the Company acquired approval for insurance agency activities.

Pursuant to the Decision of the Serbian Business Register Agency dated 11 February 2016, new branch of the Company was registered in Novi Sad.

1. BACKGROUND INFORMATION ON THE COMPANY INTESA LEASING d.o.o. BEOGRAD (Continued)

The Company operates as a subsidiary of Banca Intesa a.d. Belgrade. The ultimate owner, Intesa Sanpaolo SpA prepares consolidated financial statements which comply with IFRS, and presents them on the official website of the Intesa Sanpaolo Group: www.group.intesasanpaolo.com.

In accordance with the criteria set forth in the Accounting Law ("RS Official Gazette", no. 62/2013), the Company is classified as a large-sized legal entity.

The Company's headquarters are in Belgrade, no. 54, Cara Uroša Street. The tax identification number of the Company is 103023875. The Company's registration number is 17492713.

As at 31 December 2016 the Company had 35 employees (31 December 2015: 31 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of the Financial Statements

The Company keeps books and prepares financial statements in accordance with the Law on Accounting ("RS Official Gazette", no. 62/2013), Law on Financial Leasing ("RS Official Gazette", no. 55/2003, 61/2005, 31/2011 and 99/2011) and other applicable legal regulations in the Republic of Serbia. For recognition, measurement, presentation and disclosure of positions in financial statements the Company has, as a large size legal entity, an obligation to apply International Financial Reporting Standards (IFRS) which in the sense of the Law on Accounting includes the following: Framework for Preparation and Presentation of Financial Statements, International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), subsequent changes of those standards and interpretations related to them, approved by the International Accounting Standards Board ("the Board"), which were translated and published by the ministry in charge of these affairs ("the Ministry").

The translation of IFRS approved and published by the Ministry consists of basic IAS and IFRS texts issued by the International Accounting Standards Board, of interpretations issued by the International Financial Reporting Interpretations Committee in the form in which they are issued and it does not include bases for making conclusions, illustrative examples, directives, comments, adverse opinions, elaborated examples and other additional explanatory materials that can be adopted related to standards, i.e. interpretation, except if it is explicitly cited that it is a constituent part of a standard, i.e. interpretation. IFRS translation is adopted by the Decision of the Ministry of Finance on defining the translation of Conceptual Framework for financial reporting and basic International Accounting Standards and International Financial Reporting Standards texts, no. 401-00-896/2014-16 from 13 March 2014, published in "RS Official Gazette" no. 35 from 27 March 2014. The mentioned translation of IFRS is being applied from the financial statements that are prepared as at 31 December 2014. Changed or issued IFRS and their interpretations, after this date, are not translated and published, therefore they are not applicable to the preparation of the accompanying financial statements.

2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.1. Basis of Preparation and Presentation of the Financial Statements (Continued)

The accompanying financial statements are prepared in the form prescribed by the Rules on the Content and Layout of Financial Statement Forms for Financial Lessors ("RS Official Gazette" no. 87/2014 and 135/2014) which defines the use of a set of financial statements.

With respect to the above mentioned and the fact that certain laws and subordinated legislation define accounting treatments which in some cases differ from IFRS requirements, where the RSD is specified as the official reporting currency by the Law on Accounting, accounting regulations of the Republic of Serbia can differ from IFRS requirements which can influence the fairness and objectivity of the accompanying financial statements. Therefore, the accompanying financial statement cannot be considered financial statements prepared fully according to IFRS in the way that provisions of IAS 1 "Presentation of Financial Statements" require.

In the preparation of the accompanying financial statements, the Company has adhered to the principal accounting policies described in Note 3, which are based on the currently effective accounting and tax regulations of the Republic of Serbia.

The accompanying financial statements have been prepared under the historical cost basis, except where the fair value basis has been specifically indicated, as specified in the accounting policies.

The financial statements are prepared under the going concern assumption, which presumes that the Company will continue operating into the foreseeable future.

The Company's financial statements are presented in thousands of Dinars, unless otherwise indicated. The Dinar (RSD) is the functional and official reporting currency of the Company. All transactions in currencies other than the functional currency are being treated as transaction in foreign currencies.

The accompanying financial statements of the Company for 2016 are approved for publishing by the Chairman of the Executive Board on 14 February 2017.

2.2. Comparative data

The comparative data represent audited annual financial statements of the Company for the year ended 31 December 2015.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Income and Expense Recognition

(a) Interest Income and Expenses

Interest income and interest expense, including penalty interest, are calculated on the accrual basis and in accordance with contractual terms defined by contracts between clients and the Company, or between the Company and banks.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Income and Expense Recognition (Continued)

Income and expenses are recognized in the Statement of profit and loss using the contractual nominal interest rate.

(a) Interest Income and Expenses (continued)

Penalty interest is not accrued on accounts receivable subject to collection proceedings by the courts.

(b) Fee and Commission Income

Fee income on approval of long-term financial placements, on financial lease agreements are calculated and collected in advance. Fee income is accrued over the period of a finance lease agreement using the straight-line method.

(c) Fee and Commission Expenses

Fees and commission expenses comprise bank charges for payment and settlement transactions and other banking services, and are recognized in the Statement of profit and loss when incurred.

(d) Other Expenses

Costs of materials, maintenance, repair and replacement costs are recognized in the Statement of profit and loss when incurred.

3.2. Foreign Currency Translation

Statement of financial position and Statement of profit and loss items are measured using the currency of the primary economic environment (functional currency). As disclosed in Note 2.1, the financial statements are presented in thousands of Dinars (RSD), which represents the functional and official reporting currency of the Company.

Foreign currency transactions are initially recorded in RSD translated at the official exchange rates in effect at the date of each transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the applicable exchange rate at the balance sheet date.

Foreign exchange gains and losses arising on translation of assets and liabilities denominated in foreign currencies and from business transactions in foreign currency are reported in the Company's Statement of profit and loss, as foreign exchange gains / losses and gains / losses from foreign exchange clause (Note 8).

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the day of the assessment.

For the translation of borrowings, term deposits with foreign currency clause and monetary assets, the Company used the following official middle exchange rates of the National Bank of Serbia ("NBS") prevailing at the balance sheet date:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Foreign Currency Translation (Continued)

Currency	31 December 2016	31 December 2015
CHF	114.8473	112.5230
EUR	123.4723	121.6161

In accordance with the finance lease agreement, a lessee is obliged to pay a fee for the use of the leased assets in the RSD counter value, calculated as follows:

Exchange rate description	Exchange rates for the contracted foreign currency clause - EUR		Exchange rates for the contracted foreign currency clause - CHF	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Selling exchange rate for foreign currencies of Banca Intesa	126.5591	124.6668	120.5897	118.1492
Selling exchange rate for cash of Banca Intesa	125.9472	124.0586	120.5897	118.1492
Middle exchange rate NBS	123.4723	121.6261	114.8473	112.5230
Selling exchange rate for foreign currencies of NBS	123.8427	121.9910	-	-
Selling exchange rate for cash of NBS	124.3366	122.4775	-	-

Positive and negative effects of translating finance lease receivables denominated in a foreign currency into RSD are recorded in the income statement as Net foreign exchange gains / losses and net gains / losses from foreign exchange clause.

Investments and liabilities related to basic contracts which are tied to a foreign currency clause or some other variable, are revalued in accordance with contractual clauses. Income and expenses resulting from the application of foreign currency clause are recorded as Net foreign exchange gains/losses and net gains/losses from foreign exchange clause. During 2016, the Company has the contractual exchange rates for the translation of receivables from finance lease activities.

3.3. Cash

Cash is presented in Statement of financial position and comprises cash balances on bank accounts in domestic currency. Cash is measured at amortized cost in balance sheet.

The Company effectuates its dinar payment operations by using its current account held with Banca Intesa a.d. Beograd.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Financial placements held with banks

Financial placements held with banks comprise:
- foreign currency accounts
- term deposits with banks

Term deposits are initially measured at fair value. After initial recognition, they are recorded at amortized cost using the effective interest rate. In cases when the Company makes agreements about short term deposits with foreign currency clause or about foreign currency deposits, after initial recording the effects of foreign currency clause are being calculated as well as foreign exchange gains or losses which are recorded within Statement of profit and loss as Net foreign exchange gains/losses and net gains/losses from foreign exchange clause.

3.5. Other financial placements and derivatives

Short term financial assets are investments in securities and are related to securities available for sale. Initially they are recorded at price achieved on the day of purchase. Initially, they are measured at fair value, plus transactions costs, that are directly attributable to the acquisition or issue of the financial asset. After initial activation, financial assets that are available for sale are measured at fair value. The Company determines the fair value of securities and records the difference between fair value and book value as unrealized gain or loss on securities within the position Reserves (Note 27).

As at 31 December 2016 the Company doesn't have financial derivatives.

3.6. Receivables from finance lease activities

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of leased asset. Upon the expiry of the lease, the title may or may not eventually be transferred.

At initial recognition, the Company as a lessor recognizes assets held under finance lease in the Statement of financial position as financial investments equal to the net investment in finance lease.

Gross investment in the lease is the aggregate of: the minimum lease payments receivable by the lessor under a finance lease, and any unguaranteed residual value accruing to the benefit of lessor. Net investment in the lease is the gross investment in the lease less unearned finance income that is calculated using the interest rate defined in the finance lease agreement. Unearned finance income is the difference between gross and net investment in leases. The interest rate which is contained in the lease is the discount rate which at the beginning of the lease term causes the total sum of the present value of the minimum lease payments and unguaranteed residual value to be equal to the sum of the fair value of the asset that is the subject of the lease and all the initial expenses of finance lease.

Finance lease receivables recognized in the Statement of financial position as receivables from finance lease activities are subsequently measured at amortized cost less estimated allowance for impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Receivables from finance lease activities (Continued)

Unearned finance income is calculated under terms of the lease and recorded in the Statement of financial position as Receivables from finance lease activities.

Finance income, i.e. interest income from finance leases activities, is recognized in a manner that reflects a constant periodic yield on the residual amount of net receivables from finance leases activities.

Other receivables from finance lease activities are recorded and measured at cost less allowance for impairment.
Other receivables from finance lease comprise:

- fees,
- interest,
- costs transferred to lessee,
- warnings.

The Company calculates indirect impairment provision in accordance with applicable “Asset classification policy”.

If receivables are collected, reduction in indirect impairment provision will be recorded within income.

Receivables from finance leases activities that include a currency clause are initially valued in the counter value of foreign currency, applying the exchange rate at the day of transaction. Effects of foreign currency clauses are determined, and recognized as income or expense for the period, based on the effect of exchange rates changes from the date of transaction to the date of payment, as well as at each balance sheet date.

3.7. Impairment of Financial Assets

At each reporting date, in accordance with internal policy, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Impairment losses are recognized only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of assets and if those events have impact on the estimated future cash flows from financial assets or a group of financial assets that can be reliably estimated.

The methodology for calculation of the allowances for impairment of financial assets is defined by the Company’s “Assets Classification Policy”.

The criteria for the classification of receivables includes delay in settling obligations towards the Company, frozen accounts, financial indicators and possible net losses of the debtor, negative cash flow from operating activities, insolvency, bankruptcy, and classification of other members within a group of related parties.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Impairment of Financial Assets (Continued)

Risk-weighted assets can be divided into six classes:

(a) Performing receivables:

A1 - exposures which are not classified as Doubtful, Substandard, Restructured or Past due, which have no delays or have delays not longer than 15 days on the reporting date. Only receivables from legal entities can be classified into class A1;

A2 – exposures which are not classified as Doubtful, Substandard, Restructured or Past due which are, on the reporting day, overdue between 16 and 30 days for legal entities and overdue not longer than 30 days for individuals;

B1 - exposures which are not classified as Doubtful, Substandard, Restructured or Past due, which are overdue between 31 and 90 days on the reporting day.

(b) Non performing receivables:

B2 - (Past due) – Exposures, except those that are classified as Doubtful, Substandard or Restructured as at the reporting date, for which overdue receivables are in delay longer than 90 days;

C1 - (Unlikely to pay) – Exposures where lessees have temporary objective financial or economic difficulties, but will be able to overcome those in the foreseeable future;

C2 - (Doubtful) – Exposures to lessees who are effectively insolvent, regardless whether they are or not in bankruptcy or other legal process and regardless of the losses that the Company will have.

Allowance for impairment of receivables is calculated on the basis of an internal model and provision expenses are charged to the Statement of profit and loss. Provisions for potential losses include:

- Collective provisions.
- Individual provisions.

Allowance for impairment of receivables is assessed in line with International Accounting Standards on the basis of:

a) Collective assessment of all performing exposures, non-performing exposures whose total value is less than EUR 250,000.

b) Individual assessment of non-performing exposures greater than EUR 250,000.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Impairment of Financial Assets (Continued)

When calculating the impairment provision for credit losses, gross exposure is reduced by the amount of:

- Cash collateral, i.e. guarantee deposit.
- Unconditional guarantee issued by the Government of the Republic of Serbia or Funds controlled by the Government and financed from the state budget,
- Insurance policies issued by funds controlled by the Serbian Government and financed from the state budget,
- Pledge on gold and other precious metals,
- Pledge on treasury bills issued by the local government, the Government or Central Bank member of OECD,
- Unconditional guarantees issued by international development banks or first class ranked banks,
- 50% of the appraised value of real estate-collateral. The value of the collateral must be evaluated at least once every 3 years, for all receivables for which the total exposure to the client exceeds the materiality threshold defined in the Working instruction for the delivery, monitoring and review of the collateral.

- 60% of exposure, if the leased asset is a vehicle (passenger or commercial),
- 50% of exposure, if the leased assets is real-estate property,
- 50% of exposure, if the leased asset is an aircraft,
- 40% of exposure, if the leased asset is a watercraft or a rail vehicle,
- 40% of exposure, if the leased asset is production and other equipment,
- 40% of exposure, if the leased asset is another type of leased asset,
- 30% of exposure, if the leased asset is agricultural machinery.

Collective assessment is based on expected probability of default (Probability of default, PD) and loss in event of default (Loss Given Default, LGD). PD and LGD parameters are being calculated by Risk management sector of Banca Intesa a.d. Beograd, based on analysis of historical data, separately for homogeneous portfolio segments.

The goal of individual assessment is to quantify the discounted value of the expected cash flow from debtor's operating cash flow and collateral, where expected cash flows are calculated using original effective interest rate.

Book value of the assets is reduced by the use of an allowance account and the loss from impairment of financial assets is recorded in the Statement of profit and loss as Net impairment loss on finance lease receivables (Note 9).

If there is a decrease in the recognized loss from impairment during the next period, which arises as a consequence of an event occurring after the recognition of the impairment loss, the previously recognized impairment loss will be reduced by adjusting the allowance account and amount of the reversal will be recorded in the Statement of profit and loss as Reversal of impairment provisions on finance lease receivables.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Repossessed leased assets and inventories

a) Repossessed leased assets

In a situation of early termination of the finance lease contract, the leased asset will be repossessed, and the value of financial investments and receivables will be transferred to the accounts group Repossessed leased assets and inventories at the lower of two values: estimated value (fair value) or the value of non-matured part of financial investment at the moment of termination (carrying amount).

Valuation of a repossessed leased asset is performed regularly by a certified appraiser, with any change in value due to significant changes in the market prices or changes in the physical condition of the asset, and at least once during the period of one year from the previous valuation. During the valuation, market factors, depreciation, as well as technical conditions of the lease asset are taken into consideration. Subsequent measurement of lease assets that are acquired for uncollected receivables are stated at the lower of the two values mentioned above.

If the value of financial placements without amortization based on finance lease contract (carrying amount) is greater than the appraised value of a leased asset, such a negative difference is recorded as a correction value of the lease commitments in exchange for uncollected receivables, in the framework of repossessed leased assets and inventories (Note 10).

If the value of financial placements without amortization based on finance lease contract (carrying amount) is less than the appraised value of a leased asset, such a positive difference is recorded on off-balance items (memo account) until the moment of sale when that positive difference is realized and then it is being transferred to the Statement of financial position.

b) Inventories

Inventories of the Company comprise:

- material used in the process of rendering of services,
- advances given for lease assets,
- other given advances.

Inventories are initially recorded at historical cost. After initial recognition, these assets are valued at cost, up to the final realization of the subject of leasing or procurement of goods and services required for regular business.

The value of repossessed leased assets is stated in the balance sheet at fair value, which is based on the assessment of authorized appraisers. The fair value of other receivables based on financial leasing, other financial placements, cash, financial liabilities and other liabilities is recorded at book value, primarily because of the shot maturity of these financial instruments.

In addition, during 2016 and 2015, the value of inventories of repossessed leased assets was recorded at an estimated value, that is based on valuation of authorized appraiser. Losses after such assessment are recorded through income statement, and gains through off-balance sheet in accordance with the principle of prudence.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Intangible assets

Intangible assets are capitalized at cost at the date of acquisition.

Subsequent to initial recognition, intangible assets are carried at cost less accumulated amortization and impairment losses of assets, if any.

Intangible assets of the Company consist of a software license that is not an integral part of hardware, and which has been acquired subsequently.

The Company applies the straight-line method for calculation of amortization for intangible assets for which useful life is 5 years. The annual amortization rate for intangible assets is 20%. During 2016, there were no changes in depreciation rates, in comparison to the previous period.

Amortization charge is recognized as an expense in the period in which it was incurred (Note 12).

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net selling price and the net book value of the intangible asset, and are recognized in the Statement of profit and loss at the moment of derecognition (Note 8).

Intangible assets are written off against expenses, when the Company estimates that the investment does not have any benefit.

3.10. Property, Plant and Equipment

Property, plant and equipment of the Company as at 31 December 2016 comprise equipment.

The equipment is initially recognized at cost on the day of transaction. After initial recognition equipment is stated at cost, less total accumulated depreciation and any accumulated impairment losses.

Purchase value is consist of the invoiced value plus all expenses incurred to bringing the asset to the proper state and location.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the item can be reliably measured. All other repairs and maintenance costs are charged to the Statement of profit and loss in the period in which they were incurred.

An asset is derecognized upon disposal or when no future economic benefits are expected from its use or its disposal.

Any gains or losses arising on disposal of the asset are calculated as the difference between the net disposal proceeds and the net book value of the asset, and are included in the Statement of profit and loss as income or expense (Note 8).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Property. Plant and Equipment (Continued)

Depreciation of equipment is calculated on a straight-line basis in order to fully write off the cost of the assets over their estimated useful lives. The depreciation of equipment is provided at rates based on the estimated useful life of property and equipment, as assessed by the Company's management.

Depreciation charge is recognized as an expense in the period in which it was incurred (Note 12).

Annual depreciation rates in use are as follows:

Type of Equipment	Useful life (years)	Depreciation rate
Computer equipment	5	20.0%
Passenger vehicles	4	25.0%
Office furniture	8	12.5%
Other assets	3.33 – 14.28	7% - 30%

The estimated useful life of assets is reviewed periodically and adjusted if necessary at each reporting date. Changes in expected useful lives of assets are accounted for as changes in accounting estimates. During 2016 there were no changes in depreciation rates comparing to the previous period.

The calculation of the depreciation and amortization for tax purposes is determined by the Corporate Income Tax Law ("RS Official Gazette" no. 25/2001, 80/2002, 43/2003, 84/2004, 18/2010, 101/2011, 119/2012, 47/2013, 108/2013, 68/2014 and 142/2014) and the Rules on the Manner of Fixed Assets Classification into Groups and Depreciation for Tax Purposes ("RS Official Gazette". no. 116/2004 and 99/2010). Different depreciation methods used for financial reporting purposes and for tax purposes give rise to deferred taxes (Note 14).

3.11. Impairment of Non-financial Assets

In accordance with adopted accounting policy, at each reporting date, the Company's management reviews the carrying amounts of the Company's intangible assets and equipment. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. The recoverable amount of an asset or "cash generating unit", if the asset does not generate cash flows separately, is the higher of the fair value less costs to sell and value in use. Impairment losses, representing the difference between the carrying amount and the recoverable amount, are recognized in the Statement of profit and loss as required by IAS 36 "Impairment of Assets".

Impaired non-financial assets (other than goodwill which is not subject of reversal of the impairment) are reviewed for possible reversal of the impairment at each reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Borrowings from Banks and Other Financial Institutions

Borrowings are initially recognized at cost, being the fair value of consideration received less the related transaction expenses.

After initial recognition, interest-bearing borrowings are measured at amortized cost, using the effective interest rate.

3.13. Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognized when:

(a) the Company has a liability (legal or constructive) as a result of a past event;
(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the liability; and
(c) a reliable estimate can be made of the amount of the liability.

If these conditions are not met, no provision shall be recognized.

In accordance with IAS 19 “Employee Benefits”. the Company has recognized the provision for retirement benefits and the liability for unused vacations (Note 24).

Provisions for retirement benefits are measured at the present value of expected future outflows by using a discount rate that reflects the interest on high-quality securities that are denominated in the currency in which the benefits will be paid.

In accordance with the General Collective Agreement (“RS Official Gazette”, no. 50/2008, 104/2008 – Annex I and 8/2009 – Annex II) and the Employment Manual (clause 92), the Company is obliged to pay to an employee severance pay in the amount of two average salaries in the Republic of Serbia, according to the latest data of the authority in charge of statistics.

For employees who have attained entitlement for voluntary retirement, the employer can establish incentive severance pay greater than prescribed in the preceding paragraph. The fund for these payments has not been created.

Provisions for such fees and related expenses are recognized in the amount of the present value of future cash flows using the actuarial projected unit method (Projected Unit Credit Method). Actuarial gains and losses are recognized as income or expense when the net cumulative, unrecognized actuarial gains and losses, for each individual plan at the end of the previous reporting period exceed the amount of 10% of the defined benefit obligation at that date. These gains and losses are recognized during the expected average remaining working lives of employees participating in the plan.

Past service costs are recognized as an expense on a straight-line basis over the average period during which benefits become guaranteed. If the benefits are guaranteed from the moment of introduction, past service cost is recognized immediately.

Provisions for Litigations

Provisions for legal proceedings represent the amount that corresponds to the best estimation by the Company’s management with respect to expenditures expected to settle such obligations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Provisions, Contingent Liabilities and Contingent Assets (Continued)

The Company is involved in a small number of litigations stemming from its daily operations. The Company regularly assesses the likelihood of negative outcomes of these litigations, as well as ranges of probable and reasonable estimated losses. Reasonable estimates involve judgments made by management after considering information including notifications, settlements, estimates performed by the legal department, available facts, identification or other potentially responsible parties and their ability to contribute, and prior experience. A provision for litigations is recognized when it is probable that a liability, whose amount can be reliably estimated by due analysis, exists. The required provision could be changed in the future due to new events or additional information.

Issues that are either potential obligations, or that do not meet provisioning criteria, are disclosed, unless the possibility of outflow of resources embodying economic benefits is small.

A provision is reversed and credited to income when the outflow of economic benefits for settling legal or constructive obligations is no longer probable. The provision is monitored by type and may be used only for expenditures for which it was originally recognized. Provisions are not recognized for future operating losses.

Contingent liabilities are not disclosed in the financial statements and instead are only disclosed in the notes to the financial statements (Note 31), unless the possibility of outflow of resources embodying economic benefits is small.

The Company does not disclose contingent assets in the financial statements. Contingent assets are disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

The Managing Board of the Company adopted the Change in Accounting Policies, clause 17 –Provisions, in November 2014. With this change, rules related to provisions for litigations against the Company when there is a probability that they will be lost are more precisely defined. This change of accounting policies has no effects on financial statements since the Company did not have provisions for litigations as at 31 December 2015 or 31 December 2016.

3.14. Employee Benefits

(a) Employee Taxes and Contributions for Social Security

In accordance with the regulations prevailing in the Republic of Serbia, the Company has an obligation to pay tax and contributions to various state social security funds. These obligations include the payment of contributions on behalf of the employee (by the employer) and on behalf of the employer in an amount calculated by applying the legally-prescribed rates. The Company is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds. The Company has no legal obligation to pay further benefits due to its employees by the Pension Fund of the Republic of Serbia upon their retirement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14. Employee Benefits (Continued)

(b) *Other Employee Benefits - Retirement Benefits*

The defined benefit liability comprises the present value of the defined benefit obligation less past service cost and actuarial losses, as increased by actuarial gains not yet recognized.

(c) *Short-Term Compensated Absences*

Employees get the right to use vacation after one month of continuous work from the day of entering into employment with the employer in the calendar year.

An employee can use his vacation only with the employer where he realized the right to have vacations, and in case that he does not use its vacation completely or partly he has the right to get compensation according to the Labor Law ("RS Official Gazette" No 24/2005, 61/2005, 54/2009, 32/2013 and 75/2014). The employer with whom the employee stopped working and has unused vacation days is under obligation to pay the compensation. The use of vacation is possible at once or in several parts, but with first part lasting at least two weeks.

The Company has neither pension funds nor share-based remuneration options; consequently there are no identified obligations in that respect as of 31 December 2016.

3.15. Current Tax Liabilities

Current Income Tax

Current income tax is calculated and paid in accordance with the effective Corporate Income Tax Law ("RS Official Gazette", number 25/2001, 80/2002, 43/2003, 84/2004, 18/2010, 101/2011, 119/2012, 47/13, 108/13, 68/14 and 142/14) and by-laws. Income tax is payable at the rate of 15% on the tax base reported in the annual corporate income tax return, and can be reduced by any applicable tax credits. The tax base includes taxable profit, determined by adjusting the taxpayer's result (profit or loss) reported in the Statement of financial position, in the manner prescribed by this Law.

During the financial year, the Company pays income tax in monthly instalments in the amount determined on the basis of tax application for the previous year. Income tax statement is to be submitted within 180 days from the end of the period it relates to, i.e. by 30 June of next year.

Tax regulations in the Republic of Serbia do not allow for any tax losses of the current period to be used to recover taxes paid within a specific carry back period.

Deferred Tax Assets

Deferred income tax is calculated, using the liability method, on all temporary differences at the reporting date between the carrying amount of assets and liabilities in the financial statements and their tax bases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15. Current Tax Liabilities (Continued)

Deferred tax liabilities are recognized for all taxable temporary differences, unless the deferred tax liability make from:

a) the initial recognition of goodwill; or
b) the initial recognition of an asset or liability in a transaction which is not business combination and at the same time of the transaction, doesn't have effect on the accounting profit and taxable profit (tax loss).

However, for taxable temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, deferred tax liability is recognized in accordance with paragraph 39.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period of realizing a tax deduction or when a deferred tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at or after the reporting date. Tax rate used for calculation of deferred income tax assets in 2016 is 15%, the same as the rate used in previous year.

Current and deferred taxes are recognized as income or expense and are included in the profit for the period. Deferred income taxes related to items that are recorded directly in equity are also recognized in equity.

Significant decrease of deferred tax assets based on impairments in 2016 that were disallowed for tax purposes occurred because the Company was able to sell major part of repossessed leased assets from previous years that contained unrecognized impairments which were the basis for presentation of these deferred tax assets.

Current Tax Assets/Liabilities

According to IAS 12 *Income taxes*, if the amount of income tax paid for current and previous periods is higher than income tax payable for the period, the difference is recognized as a tax asset.

The Company has presented data on current tax liability for 2016 in Note 14.

Taxes and Contributions Not Related to Operating Result

Taxes and contributions that are not related to the Company's operating result include payroll taxes and contributions payable by employer, and various other taxes and contributions paid pursuant to republic and municipal regulations.

3.16. Other liabilities

Trade payables and other liabilities from operations are measured at their nominal value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17. Related Party Disclosures

For the purpose of these financial statements related legal entities are those entities where one legal entity has a possibility to control another entity or has the right to govern the financial and business operations of that entity, as defined by IAS 24 "Related Party Disclosures".

Relations between the Company and its related parties are regulated contractually. Outstanding balances of receivables and liabilities at the reporting date, as well as transactions occurred during reporting periods with related parties are separately in the notes to the financial statements (Note 30).

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

Use of Estimates

The preparation and presentation of the financial statements requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date, as well as income and expenses for the reporting period.

These estimations and related assumptions are based on information available as at the reporting date. Actual results could differ from those estimates. These estimates and underlying assumptions are reviewed on an ongoing basis, and changes in estimates are recognized in the periods in which they become known.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (loss event) and when the loss event has impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. When it comes to the assessment of losses due to impairment of loans, the Company estimates leasing portfolio at least quarterly for the purpose of assessing the impairment.

In the process of determining whether an impairment loss should be included in the income statement, the Company makes judgments as to whether there is reliable evidence to show a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease that can be identified on the level of individual leasing placements in the portfolio.

This evidence may include observable data which indicate an adverse change in terms of features and the ability of the debtor to regularly settle obligations toward the Company.

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between estimated and actual losses.

Useful Lives of Intangible Assets, Property, Plant and Equipment

The determination of the useful lives of intangible assets, property, plant and equipment is based on historical experience with similar assets, as well as any anticipated technological development and changes in broad economic or industry factors.

The appropriateness of estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in underlying assumptions.

Impairment of Non-Financial Assets, Repossessed Leased Assets and Inventories

The Company's management reviews the carrying amounts of the Company's intangible assets, property, plant and equipment, as well as of the repossessed leased assets and inventories presented in the financial statements at each reporting date. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment review requires management to make subjective judgments concerning the cash flows, growth rates and discount rates of the cash generating units under review.

Issues that are either contingent liabilities or do not meet the criteria for a provision to be made are disclosed, unless the possibility of outflow of resources embodying economic benefits is small.

Opinion of the Company is that there is no significant deviation in the book value of assets from the fair value that would have an impact on the financial statements.

5. INTEREST INCOME AND EXPENSES

Interest income	2016	2015
Interest income from finance lease activities – new leased assets	361,160	310,239
Penalty interest	8,761	9,704
Interest income on securities	48,304	63,482
Interest income on placements held with banks	3,615	13,593
Total	**421,840**	**397,018**
Interest expense		
Interest expense on other borrowings from abroad	(108,364)	(119,068)
Interest expense on borrowings from related parties in the country	(67,648)	(13,868)
Total	**(176,012)**	**(132,936)**
Net interest income	**245,828**	**264,082**

In accordance with paragraph AG93, IAS 39 Financial Instruments: Recognition and Measurement, the Company has calculated interest income on impaired financial assets, which for 2016 amounted to RSD 1,263 thousand (2015: RSD 463 thousand). Bearing in mind that the calculated income is immaterial, the Company did not record it.

6. FEE AND COMMISSION INCOME AND EXPENSES

Fee and commission income

	2016	2015
Income from delivering services – finance lease origination fees	41,330	39,122
Income from warnings	8,727	10,531
Intercalary interest income	21,070	9,328
Income from costs transferred to lessees	32,515	23,878
Total	**103,642**	**82,859**

6. FEE AND COMMISSION INCOME AND EXPENSES (Continued)

Fee and commission expenses

	2016	2015
Insurance for leased assets	(21,962)	(17,060)
Expenses from placement of leasing assets	(4,744)	(926)
Expenses from repossessing leased assets	(2,050)	(352)
Registration fees of lease agreements	(7,010)	(4,541)
Expenses from loan guarantees	(13,041)	(14,529)
Fees for loans received	(16,071)	(9,150)
Other expenses from finance lease activities	(1,740)	(2,991)
Total	**(66,618)**	**(49,549)**
Net fee and commission income	**37,024**	**33,310**

The group Operating expenses include costs related to financial leasing that are transferred to lessees in the amount of RSD 32,272 thousand for 2016 and RSD 24,096 thousand for 2015.

7. NET FOREIGN EXCHANGE GAINS AND NET GAINS FROM FOREIGN EXCHANGE CLAUSE

Gains

	2016	2015
Income from foreign currency clause application	187,782	112,565
Foreign exchange gains	48,303	173,483
Total	**236,085**	**286,048**

Losses

	2016	2015
Expenses from foreign currency clause application	(108,152)	(47,624)
Foreign exchange loses	(127,057)	(233,230)
Total	**(235,209)**	**(280,854)**
Net gains	**876**	**5,194**

8. OTHER OPERATING INCOME

	2016	2015
Rental income	1,024	2,946
Income from marketing activities	7,550	4,954
Gains on sale of intangible assets and equipment	3,138	-
Income from reduction of VAT liabilities on court proceeding termination	4,522	848
Income from insurance brokerage	2,711	-
Other business income	10,259	4,248
Total	**29,204**	**12,996**

9. NET IMPAIRMENT LOSS ON FINANCE LEASE RECEIVABLES

	2016	2015
Net impairment of long-term receivables from finance lease activities overdue more than 60 days	3,648	1,045
Net impairment of long-term receivables overdue up to 60 days and future receivables from finance lease activities	22,658	(12,879)
Net impairment of short-term receivables overdue more than 60 days	(186)	(1,172)
Net impairment of short-term receivables overdue up to 60 days	(195)	147
Total	**25,925**	**(12,859)**

10. NET GAINS / (LOSSES) FROM CHANGES IN VALUE OF REPOSSESSED LEASED ASSETS

	2016	2015
Impairment provision of repossessed leased assets after sale	(25)	(5,781)
Reversal of impairment provision on repossessed leased assets	793	7,414
Total	**768**	**1,633**

11. COSTS OF SALARIES. BENEFITS AND OTHER PERSONAL EXPENSES

	2016	2015
Gross salaries	72,196	70,195
Expenses for accrued bonuses	7,108	3,770
Tax and contribution expenses	11,977	10,425
Other personnel expenses	1,369	1,442
Provision for retirement benefits (Note 24)	11	50
Total	**92,661**	**85,882**

12. DEPRECIATION AND AMORTIZATION EXPENSES

	2016	2015
Amortization of intangible assets (Note 20)	3,011	4,225
Depreciation of property, plant and equipment (Note 21)	3,158	3,133
Total	**6,169**	**7,358**

13. OPERATING EXPENSES

	2016	2015
Maintenance costs	11,318	11,698
Advertisement costs	1,994	2,851
Consulting services (a)	11,644	7,930
Rental expenses (b)	7,310	5,032
Bank charges	801	536
Representation costs	2,673	2,703
Youth and student association services	5,776	3,051
Fuel	2,376	2,471
Legal services	2,487	2,412
Transportation and postal service	2,492	2,309
Costs of material	2,442	1,469
Professional development and literature	1,906	1,383
Spare parts and tools	1,165	1,268
Audit services	3,770	3,695
Membership fees	842	810
Insurance premiums	733	746
Translation services and similar services	123	218
Tax expenses (c)	6,627	951
Litigation expenses	1,767	890
Direct write-off of receivables	-	673
Costs of other services	5,482	2,795
Total	**73,728**	**55,891**

13. OPERATING EXPENSES (Continued)

(a) Expenses for consultancy services in the current year were higher compared to the previous year primarily due the increase in expenses arising from SLA contract with related party Banca Intesa AD Beograd, due to the increased level of services during the year compared to the previous year, these expenses are RSD 10,930 thousand, previous year: RSD 7,930 thousand.

(b) Rental costs are higher in the current year compared to the previous year because the Company started paying rent for business premises in Novi Sad in 2016.

(c) Income tax expense in the current year is significantly higher compared to the previous year because the Company reported under expenses changes in the tax base in the amount of RSD 6,117 thousand, due to the general obsolescence of these receivables and because the client does not have an authorized person who can authorize change in the tax base.

14. INCOME TAXES

(a) Components of Income Taxes

Components of income tax expense are:

	2016	2015
Current tax expense	30,323	25,535
Deferred tax expense	265	266
Total income tax expense	**30,588**	**25,801**

14. INCOME TAXES (Continued)

b) Numerical Reconciliation of Income Tax Expense and Profit Before Tax Multiplied by the Income Tax Rate

Reconciliation between income tax expenses calculated at the statutory income tax rate on profit before tax and income tax expense as per the Company's effective income tax rate for the years ended 31 December 2016 and 2015 is presented below:

	2016	2015
Profit before tax	**167,659**	**155,225**
Income tax at statutory rate of 15%	**25,149**	**23,284**
Non-deductible expenses	333	-
Non-deductible impairment of receivables	13,348	15,316
Interest income on securities issued by the Republic of Serbia	(7,246)	(9,556)
Losses of impairment of assets that are recognized in the tax period	-	-
Correction of previously recognized tax assets	(1,261)	(3,509)
Income tax expense	**30,323**	**25,535**
Deferred tax expense	265	266
Income tax with deferred tax expense	**30,588**	**25,801**
Effective tax rate	***18.24%***	***16.62%***

(c) Deferred Tax Assets

Movements in deferred tax assets during the year were as follows:

	2016	2015
Balance as at 1 January	**2,386**	**2,652**
Effects of temporary differences credited/(charged) to the Statement of profit and loss	(265)	(266)
Balance at 31 December	**2,121**	**2,386**

14. INCOME TAXES (Continued)

The following table represents the bases for recording deferred tax income / (expense) and the effect on the Statement of profit and loss for the years ended 31 December 2016 and 2015:

	Deferred tax assets 2016	Statement of profit and loss 2016	Deferred tax assets 2015	Statement of profit and loss 2015
Temporary differences between the carrying amount of equipment and intangible assets and their tax base	2,085	(267)	2,352	637
Disallowed tax-deducted impairments	-	-	-	(910)
Provisions in accordance with IAS 19	36	2	34	7
	2,121	**(265)**	**2,386**	**(266)**

(d) Current tax assets/liabilities

	2016	2015
Balance at 31 December	**(7,426)**	**(5,340)**

Current tax liability resulting from the difference of the calculated tax expenses for 2016 and the advance tax paid on profits in 2016.

15. CASH

	2016	2015
Current accounts in RSD	75,128	1,240,864
Balance as at 31 December	**75,128**	**1,240,864**

During 2016 and 2015 the Company performed payment and settlement transactions in domestic and foreign currency through its accounts held with Banca Intesa a.d. Beograd.

16. FINANCIAL PLACEMENTS HELD WITH BANKS

	2016	2015
Currency account	1,767,255	-
Balance as at 31 December	**1,767,255**	**-**

As at 31 December 2016 financial placements held with banks relate to a foreign currency account related to a loan from abroad received at the end of December.

17. OTHER FINANCIAL PLACEMENTS AND DERIVATIVES

Other financial placements and derivatives relate to purchased securities that are classified as securities available for sale.

Below we show a comparative review of financial placements:

Description of financial placement	Market value 31/12/2016	Maturity of financial placements	Interest rate achieved in the time of purchasing the year 2016
Government bonds of the Republic of Serbia	496,773	February 2019	5.00% annually
Government bonds of the Republic of Serbia	511,303	December 2017	4.95% annually
Total:	**1,008,076**		

Description of financial placement	Market value 31/12/2015	Maturity of financial placements	Interest rate achieved in the time of purchasing the year 2015
Treasury bills of the Republic of Serbia	475,307	October 2016	4.89% annually
Government bonds of the Republic of Serbia	512,646	December 2017	4.95% annually
Total:	**987,953**		

18. RECEIVABLES FROM FINANCE LEASE ACTIVITIES

Structure of receivables from finance lease activities are presented below:

	2016	2015
Overdue finance lease receivables	316,450	365,052
Finance lease receivables with maturity up to 1 year	3,143,444	2,257,981
Finance lease receivables with maturity from 1 to 5 years	6,197,943	4,385,641
Finance lease receivables with maturity over 5 years	256,185	248,199
Total	**9,914,022**	**7,256,873**
Short-term receivables	20,542	17,785
Accrued interest income on finance lease receivables	19,398	16,540
Deferred income – finance lease origination fees	(67,709)	(54,749)
Total	**9,886,253**	**7,236,449**
Allowance for impairment – overdue receivables	(235,860)	(266,293)
Allowance for impairment – Finance lease receivables with maturity up to 1 year	(55,857)	(62,081)
Allowance for impairment – Finance lease receivables with maturity from 1 up to 5 years	(88,128)	(98,099)
Allowance for impairment – Finance lease receivables with maturity over 5 years	(3,301)	(7,131)
Allowance for impairment – Short-term receivables	(9,086)	(9,037)
Total allowances for impairment	**(392,232)**	**(442,641)**
Balance as at 31 December	**9,494,021**	**6,793,808**

Placements and receivables from finance lease activities amount to RSD 9,914,022 thousand at 31 December 2016 and have increased by 36.62% compared to the previous year (31 December 2015: RSD 7,256,873 thousand). Other receivables from finance lease are receivables for finance lease origination fees, recharged expenses, penalty interest, warnings and compound interest.

Deferred income – finance lease origination fees are a deductible item from Receivables for finance lease activities in the amount of RSD 67,709 thousand for 2016, and RSD 54,749 thousand for 2015.

Accrued interest income on finance lease receivables relates to interest accrued as at 31 December 2016 with respect to all finance lease contracts with annuity maturing in the following year, i.e. representing the portion of interest income for the period of last annuity in the reporting period and end of the reporting period.

18. RECEIVABLES FROM FINANCE LEASE ACTIVITIES (Continued)

a) The present and future value of minimum lease payments receivables, without accrued interest income and deferred origination fees as at 31 December 2016 are presented in the table below:

	Net Present Value	Unearned income	Gross receivables
Up to 1 year	3,459,894	311,448	3,771,342
From 1 to 5 years	6,197,943	474,929	6,672,872
Over 5 years	256,185	17,861	274,046
Total	**9,914,022**	**804,238**	**10,718,260**

The present and future value of minimum lease payments receivables, without accrued interest income and deferred origination fees as at 31 December 2015 are presented in the table below:

	Net Present Value	Unearned income	Gross receivables
Up to 1 year	2,623,033	269,546	2,892,579
From 1 to 5 years	4,385,641	264,453	4,650,094
Over 5 years	248,199	26,172	274,371
Total	**7,256,873**	**560,171**	**7,817,044**

b) Movements in the allowance for impairment of receivables from finance lease activities during the year were as follows:

	2016	2015
Balance as at 1 January	**(442,641)**	**(510,308)**
Allowances for impairment	(104,396)	(21,273)
Reversal of allowances for impairment	**130,321**	**45,965**
Write off of receivables - decrease	26,490	48,525
Foreign exchange differences - increase	(4,705)	(5,722)
Foreign exchange differences - decrease	2,699	172
Balance as at 31 December	**(392,232)**	**(442,641)**

(c) In 2016 finance lease agreements were concluded for periods of up to 10 years. Economic benefits and risks are transferred to the lessee pursuant to the finance lease agreements. In accordance with the agreements, ownership is transferred to the lessee upon repayment of all the contracted instalments. In 2016, average lease origination fee amounted to 0.57% of the gross cost of the leased asset (2015: 0.53%).

The Company uses a foreign currency clause as protection against foreign currency risk, which is included in finance lease agreements.

18. RECEIVABLES FROM FINANCE LEASE ACTIVITIES (Continued)

Nominal interest rates on finance lease agreements approved in 2016 vary in the following ranges

	From	To
Finance lease receivables in EUR	1.85%	7.74%
Finance lease receivables in RSD	5.50%	9.99%

The average rate of the clients' participation in accordance with the lease agreements in 2016 amounted to 15.29% of the net cost of the leased asset (2015: 13.30%).

19. REPOSSESSED LEASED ASSETS AND INVENTORIES

	2016	2015
Inventories	210	-
Advances paid - other	709	439
Advances paid – supply of finance lease assets	413,972	95,198
Finance lease assets repossessed in exchange for uncollectible receivables	2,488	942
Balance as at 31 December	**417,379**	**96,579**

As at 31 December 2016 finance lease assets repossessed in exchange for uncollectible receivables amounting RSD 2,488 thousand are intended to be reactivated through finance lease agreements or for further reselling. The repossessed finance lease assets relate to 10 finance lease agreements. Advances paid for supply of finance lease assets relate to ten finance lease agreements with planned activation in 2017.

20. INTANGIBLE ASSETS

	Licenses and software	Intangible assets under development	TOTAL
COST			
Balance as at 1 January 2015	**22,174**	**-**	**22,174**
Additions during the yea	1,910	3,054	**4,964**
Transfer from/to	-	-	**-**
Disposals	-	-	-
Balance as at 31 December 2015	**24,084**	**3,054**	**27,138**
Additions during the year	**1,478**	**1,180**	**2,658**
Transfer (from)/to	**4,172**	**(4,172)**	**-**
Disposals	-	-	-
Balance as at 31 December 2016	**29,734**	**62**	**29,796**
ACCUMULATED AMORTIZATION			
Balance as at 1 January 2015	**14,025**	**-**	**14,025**
Amortization (Note 12)	**4,255**	-	**4,255**
Disposals	-	-	-
Balance as at 31 December 2015	**18,280**	**-**	**18,280**
Amortization (Note 12)	3,011	-	**3,011**
Disposals	-	-	-
Balance as at 31 December 2016	**21,291**	**-**	**21,291**
Net book value as at			
- 31 December 2016	**8,443**	**62**	**8,505**
- 31 December 2015	**5,804**	**3,054**	**8,858**

In 2016 the upgrade of the information system "Nova" was extended with existing modules and three new licenses, as well as investment in intangible assets in preparation for one new processes. The overall increase in licenses and software with respect to these items amounts to RSD 2,658 thousand.

The Company's management estimates that there are no indications that intangible assets are impaired as at 31 December 2016.

21. PROPERTY. PLANT AND EQUIPMENT

	Vehicles	Furniture	Other equipment	TOTAL
COST				
Balance as at 1 January 2015	**18,686**	**2,867**	**3,137**	**24,690**
Additions during the year – equipment in preparation	-	-	-	-
Additions during the – new equipment	2,485	-	517	3,002
Disposals	-	-	-	-
Balance as at 31 December 2015	**21,171**	**2,867**	**3,654**	**27,692**
Additions during the year – equipment in preparation	-	-	-	-
Additions during the – new equipment	5,298	-	246	5,544
Disposals	(6,941)	-	-	(6,941)
Balance as at 31 December 2016	**19,528**	**2,867**	**3,900**	**26,295**
ACCUMULATED DEPRECIATION				
Balance as at 1 January 2015	**14,028**	**2,227**	**1,922**	**18,177**
Depreciation (Note 12)	2,465	220	418	3,103
Disposals	-	-	-	-
Balance as at 31 December 2015	**16,493**	**2,447**	**2,340**	**21,280**
Depreciation (Note 12)	2,530	179	448	3,157
Disposals	(6,941)	-	-	(6,941)
Balance as at 31 December 2016	**12,082**	**2,626**	**2,788**	**17,496**
Net book value as at:				
- 31 December 2016	**7,446**	**241**	**1,112**	**8,799**
- 31 December 2015	**4,678**	**420**	**1,314**	**6,412**

During 2016, the Company acquired one passenger vehicle. In addition, computer equipment has been purchased for regular operations.

The Company's management estimates that there are no indications that the value of the equipment is impaired as at 31 December 2016.

The Company has no restrictions on ownership of equipment as of 31 December 2016, nor has any item of equipment been pledged as a collateral.

22. OTHER ASSETS

More detailed explanation of other assets is given in the following table:

	2016	2015
Interest receivable on term deposits	76	1,466
Receivables for expenses subject to refunding	808	2,666
Receivables for changes in tax base	582	6,429
Other accruals	13,435	1,925
Prepaid expenses	1,107	1,197
Receivables on sale of leased assets	1,323	-
Receivables for subsidized interest of suppliers of leased assets	943	1,665
Other receivables	3,142	211,027
Total	**21,416**	**226,375**

Change in interest on deposits in 2016 is due the decrease in interest rates on term deposit, as well as the average balance of these deposits decrease compared to the same period in the previous year.

Decrease in receivables for changes in unconfirmed tax base is the result of impairment change in tax base of one client in the amount of RSD 6,117 thousand charged to expenses due to obsolescence of receivables since the client does not have authorized person to sign the change of tax base.

In the item other receivables the largest amount refers to receivables for marketing activities for contracts of business cooperation with insurance companies in the amount of RSD 2,077 thousand.

23. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2016	2015
Short-term borrowings in the country	3,536,129	1,590,570
Interest payable on borrowings in the country	7,423	1,107
Portion of long-term borrowings with maturity up to 1 year in the country	271,639	272,645
Portion of long-term borrowings with maturity up to 1 year from abroad	915,910	1,008,570
Portion of long-term borrowings with maturity from 1 to 5 years in the country	299,077	372,986
Portion of long-term borrowings with maturity from 1 to 5 years from abroad	5,014,103	3,429,499
Portion of long-term borrowings with maturity from over 5 years from abroad	883,512	675,700
	10,927,793	**7,351,077**
Accrued interest and guarantees expenses on long-term borrowings from abroad	18,937	20,487
Deferred disbursement fees on borrowings in the country	(3,228)	(4,026)
Deferred disbursement fees on borrowings from abroad	(36,938)	(41,995)
Balance as at 31 December	**10,906,564**	**7,325,543**

Borrowings from banks and other financial institutions are reduced by deferred disbursement fees on borrowings, which are deferred over the period the borrowing is in use. Previous note presents deferred disbursement fees on borrowings in the country and from abroad.

Financial liabilities arising from borrowings from banks are increased for deferred interest and deferred guarantee expenses on borrowings.

Borrowings from banks and other credit institutions:

	2016	2015
Banca Intesa AD Beograd	4,114,268	2,237,308
Council of Europe Development Bank	720,255	912,196
European Investment Bank –EIB	1,234,723	1,216,260
GGF Southeast Europe B.V.	448,822	552,791
European Fund for Southeast Europe S.A.	1,234,723	608,131
European Bank for Reconstruction and Development	3,175,002	1,824,391
Balance as at 31 December	**10,927,793**	**7,351,077**

23. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (Continued)

During 2016, the following loans were taken from abroad:

A loan in the amount of EUR 15 million from the European Bank for Reconstruction and Development, as a security for this borrowing, received the guarantee of Intesa Sanpaolo S.p.a which is recorded under off-balance sheet items (Note 30).

A loan in the amount of EUR 10 million from European Fund for Southeast Europe S.A..

During 2016, the Company repaid part of the long-term borrowing from the Council of Europe Development Bank in the amount of EUR 1,67 million, as part of long-term borrowing received from the GGF for Southeast Europe B.V. in the amount of EUR 0,91 million, part of long-term loan from European Bank for Reconstruction and Development in the amount of EUR 4,28 million, as well se long-term load from European Fund for Southeast Europe S.A. in the amount of EUR 5 million.

As at 31 December 2016 the Company had the following approved and unused borrowings:

a) Long-term borrowing in the amount of EUR 15 million approved by the KfW Entwicklungsbank,
b) Part of short-term revolving borrowing of EUR 6,7 million approved by Banca Intesa AD Beograd.

The interest rate on long-term borrowings from abroad ranges from 0.25% up to 3.20% per annum, depending on the maturity period.
Contractual repayment of long-term borrowings from abroad are from 3 to 11 years.

The Company has a contractual liability to report quarterly to two creditors from abroad (GGF Southeast Europe B.V. and the European Fund for Southeast Europe S.A.) on the level of financial covenants.
Financial covenants to be prepared and submitted are:

- Equity to Assets Ratio, condition of covenant is 8%, limit defined Covenant is greater than 13%;
- Open Lease Exposure Ratio.,condition of covenant is -8%, limit defined Covenant is less than 20%;
- Aggregate Maturity Gap Ratio, condition of covenant is 312%, limit defined Covenant is greater than -100%;
- Aggregate Large Exposure Ratio, condition of covenant is 348%, limit defined Covenant is less than 200%;

Two covenants were above the limit in 2016, as a result of decrease in capital of the Company and creditors were informed of this limit break.

24. PROVISIONS

	2016	2015
Long-term provisions for retirement benefits	238	227
Balance as at 31 December	**238**	**227**

24. PROVISIONS (Continued)

The provision for employees' retirement benefits have been recorded on the basis of the Report of an independent actuary as at 31 December 2016 in the amount of discounted present value of future payments.

When determining the present value of the expected outflows, the discount rate of 5.6% has been used, representing an appropriate rate according to IAS 19, which represents a long-term rate of return on high-quality debt securities.

The provision was determined on the basis of the Rules of Procedure of the Company and the assumption of average growth of salaries in Serbia in the last 6 years from 5.4 % a year.

Movements in provisions during the year were as follows:

	2016	2015
Balance as at 1 January	**227**	**177**
Provisions during the year (Note 11)	11	50
Release of provisions	-	-
Balance as at 31 December	**238**	**227**

25. OTHER LIABILITIES

	2016	2015
Domestic trade payables	31,885	227,145
Other payables to customers	50,656	36,601
Liabilities for unused vacations (Note 11)	152	258
Other deferrals	16,551	6,561
Withholding tax payable	-	42
Value added tax payable	7,118	-
Liabilities for salaries and benefits	6,435	4,224
Other liabilities	789,601	125,500
Balance as at 31 December	**902,398**	**400,331**

Other payables to customers in the amount of RSD 50,656 thousand as of 31 December 2016 mostly relate to higher rates paid by customers in the amount of RSD 44,759 thousand (2015: RSD 23,194 thousand).

Other deferrals mainly refer to deferred income arising from subsidized interest by supplier of the leased asset in the amount of RSD 12,575 thousand (2015: RSD 2,511 thousand).

Other liabilities in the amount of RSD 789,387 thousand represent liabilities for the payment of profits to the Company's founder Banka Intesa a.d. Belgrade (2015: RSD 125,500 thousand). The decision on the payment of profit was taken at the Assembly session on 30 December 2016 (Note 28).

26. STAKE CAPITAL

The Company's stake capital structure by stakeholders' contribution as at 31 December 2016 and 2015 is presented in the table below:

	2016	2015
Banca Intesa a.d. Belgrade	960,374	960,374
Total	**960,374**	**960,374**

Accordingly, as at 31 December 2016 Banca Intesa a.d. Beograd is the sole owner of the Company with 100% share in the Company's stake (initial) capital.

Pursuant to the Decision of the Serbian Business Registers Agency no. 155596/2011 dated 19 December 2011, the change of the founders was registered, whereby Banca Intesa a.d. Beograd was inscribed as the sole owner of the Company.

Inscribed and paid-in initial (pecuniary) capital of the Company registered with the Serbian Business Registers Agency amounts to EUR 10,152,453 as at the payment date.

The pecuniary portion of the initial capital of the Company as at 31 December 2016 satisfies the minimal required amount prescribed by Article 10a of the Law on Financial Leasing ("RS Official Gazette". no. 55/2003, 61/2005, 31/2011 and 99/2011).

27. RESERVES, REVALUATION RESERVES AND UNREALIZED GAINS AND LOSSES

The structure of the Company's reserves as at 31 December 2016 and 2015 is as follows:

	2016	2015
Unrealized gains	11,229	4,633
Balance as at 31 December	**11,229**	**4,633**

Unrealized gains in 2016 result from the conversion of the nominal value of short-term securities (Note 17) on the fair value at the reporting date. Unrealized gains in the amount of RSD 11,229 thousand were incurred as a result of high demand for government securities on the secondary market.

28. PROFIT

Total retained earnings of the Company as at 31 December 2016 amounted to RSD 14,471 thousand (31 December 2015: RSD 666,787 thousand) and consist of part of profit for the current year, while the remaining portion of profit in the amount of RSD 122,600 thousand is allocated to liabilities for profit distribution. At the Company Assembly's session on 30 December 2016 the decision was made on profit distribution in the amount of RSD 789,387 thousand, of which the amount of RSD 666,787 thousand relates to retained earnings and the amount of RSD 122,600 thousand relates to retained interim profit for 2016 (see Note 25).

29. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Liabilities arising from operating lease

Obligations under operating leases relate to rental costs based on concluded contracts.

Future minimum lease payment commitments under operating leases are as follows:

	2016	2015
Less than 1 year	4,696	4,037
From 1 to 5 years	18,784	16,148
	23,480	**20,185**

(b) Litigations

As at 31 December 2016 the Company the company is involved in two court disputes as respondent. The total value of these court cases is RSD 100 thousand and management estimates that the Company will not lose these court cases.

(c) Tax risks

The tax system in the Republic of Serbia is undergoing continuous amendments. The tax period in the Republic of Serbia is considered to be open for a five-year period, in accordance with the period of limitation defined by the Tax Procedures and Tax Administration Act. In different circumstances, tax authorities could have different approaches to some issues, and could assess additional tax liabilities together with related penalty interest and fines. The Company's management believes that tax liabilities recognized in the accompanying financial statements are fairly presented.

30. RELATED PARTY DISCLOSURES

In the ordinary course of business, the Company enters into transactions with its founder and other related parties.

All transactions with related parties are conducted under ordinary market conditions which would be applicable to transactions with third parties.

Received guarantees from related parties have been recorded within the off-balance sheet items and they are, as at 31 December 2016, as follows: RSD 1,322,918 thousand from Banca Intesa a.d. Beograd and RSD 3,807,063 from Intesa Sanpaolo S.p.A. Milano.

Repo transactions of securities with related party Banca Intesa a.d. Beograd are also recorded within the off-balance item in the amount of RSD 904,606 thousand.

(a) Transactions with the owner - Banca Intesa a.d. Beograd

Outstanding balances of receivables and liabilities as at 31 December 2016 and 2015 resulting from transactions with Banca Intesa a.d. Beograd, as well as income and expenses earned/incurred during the year are presented as follows:

30. RELATED PARTY DISCLOSURES (Continued)

Receivables from Banca Intesa a.d. Beograd

	2016	2015
Cash (Note 15)	75,128	1,240,864
Financial placements held with banks (Note 16)	1,767,255	-
Receivables from finance lease activities	29,189	37,655
Other assets:		
Interest on transaction deposits	76	1,466
Balance as at 31 December	**1,871,648**	**1,279,985**

Liabilities to Banca Intesa a.d. Beograd

	2016	2015
Borrowings from banks and other financial institutions:		
Long-term borrowings (Note 23)	299,077	372,986
Short-term borrowings (Note 23)	3,807,768	1,863,215
Interest payable (Note 23)	7,423	1,107
Deferred disbursement fees on borrowings in the country	(4,110)	(4,026)
Liabilities for profit payment	789,387	125,500
Other liabilities	15,325	10,232
Balance as at 31 December	**4,914,870**	**2,369,014**

Income from Transactions with Banca Intesa a.d. Beograd

	2016	2015
Interest income (Note 5):		
Interest income on deposits	3,615	13,593
Interest income from finance lease activities	1,539	2,169
Fee and commission income (Note 6)	56	92
Total	**5,210**	**15,854**

30. RELATED PARTY DISCLOSURES (Continued)

Expenses from Transactions with Banca Intesa a.d. Beograd

	2016	2015
Interest expenses (Note 5)	67,648	13,868
Fee and commission expenses (Note 6)	6,273	4,422
Net foreign exchange gains and net gains from foreign exchange clause	29,707	4,152
Expenses for guarantees issued	10,325	12,053
Expenses on SLA contract	10,973	7,930
Rental expenses	4,072	3,074
Other expenses	5,270	2,287
Total	**134,268**	**47,786**

(b) Transactions with Other Related Parties

As at 31 December 2016 and 2015 the Company had the following liabilities and receivables toward the members of Intesa Sanpaolo Group - Intesa Sanpaolo S.p.A. as well as expenses incurred during the year:

Receivables from members of Intesa Sanpaolo Group

	2016	2015
Other assets (Note 22)	808	2,666
Balance as at 31 December	**808**	**2,666**

Balance of other assets from a related party Intesa Sanpaolo S.p.A. Milano as at 31 December 2016 relate to receivables for salary of one of the Company's employees to be refunded.

Liabilities to the Members of Intesa Sanpaolo Group

	2016	2015
Other liabilities - Intesa Sanpaolo S.p.A. (Note 25)	1,294	445
Balance as at 31 December	**1,294**	**445**

At the end of 2016 the Company had commitments to a related party of the Intesa Sanpaolo Group for accrued expenses for guarantees given.

Expenses from Transactions with the Members of Intesa Sanpaolo Group - Intesa Sanpaolo S.p.A

	2016	2015
Fee and commission expanse (Note 6)	2,716	2,476
Total	**2,716**	**2,476**

30. RELATED PARTY DISCLOSURES (Continued)

Fee and commission expanse in 2016 relate to the cost of guarantees issued by the related party Intesa Sanpaolo S.p.A. Milan.

(c) Salaries of the Key Management Personnel

During the years ended 31 December 2016 and 2015 salaries in the following amounts were paid to the Company's management:

	2016	2015
Total gross salaries	25,420	24,379
Total net salaries	19,824	19,824

No remunerations were paid to the members of the Supervisory Board in 2016 and 2015.

31. RISK MANAGEMENT

Risk is an inherent part of a financial institution's activities and cannot be eliminated completely. However, the Company should manage risks in order to reduce them to an acceptable level for all interested parties: owners of the Company, the lessor, the lessees and regulators. Risk management is the process of permanent identification, assessment, measurement, monitoring and controlling of the Company's exposure to risks. An important part of risk management is reporting and risk mitigation. An adequate system of risk management is an important element in ensuring the Company's stability and profitability.

Owing to the nature of its activities, the Company is exposed to the following major risks:

- credit risk,
- liquidity risk,
- market risk (interest rate risk, foreign currency risk and other market risks), and
- operational risk.

The Company is also exposed to and monitors the influence of risk of exposure toward a single entity (concentration risk), as well as exposure toward a group of related parties and risk related to the country of origin of the entity to which the Company is exposed.

Management is responsible for implementation of an adequate risk management system and its consistent application. Management determines the procedures for identification, measurement and assessment of risks, and is responsible for implementing a unique risk management system and supervision over that system in the Company.

Management is responsible for identifying, assessing and measuring the risks the Company is exposed to in its business, and applies the principles of risk management approved by the Company's Managing Board.

31. RISK MANAGEMENT (Continued)

The Company's Managing Board analyses and adopts the proposals of policies and procedures with respect to risk management and internal controls, which are submitted to the Managing Board for consideration and adoption. Furthermore, the Board analyses and monitors the application and adequate implementation of the adopted policies and procedures for risk management and proposes the measures for their improvement, if necessary.

The Risk Management Department and Corporate Department of Banca Intesa a.d. Beograd are involved in implementing a special and unique system for risk management. Facilitating functional and organizational segregation of risk management activities from regular business activities.

The Company has developed a comprehensive risk management system by introducing policies and procedures, as well as by establishing limits for risk levels acceptable to the Company.
The foregoing particularly relates to credit risk, operational risk, liquidity risk, compliance risk, market risk and exposure (concentration) risk. The Company will prescribe in its internal acts the procedures for risk identification, measurement and assessment, as well as risk management, in accordance with the regulations, standards and profession rules, and rules of the group Intesa SanPaolo.

The process of Risk Management is formalized through six procedures which coordinating with the rules of ISP Group at least annually. Adopted procedures are presented as follows:

- Procedure for managing risk exposure
- Procedure for managing liquidity risk
- Procedure for managing interest rate risk
- Procedure for managing operational risk
- Procedure for managing compliance risk.

Also, this procedures are adopted:
- Procedure for managing foreign exchange risk
- Policy for managing credit risk
- Policy for managing socio-ecologic risk
- Policy for managing information system

Organizational units in charge of risk management of both the Company's and Banca Intesa a.d. Beograd continuously monitor changes in legislation, analyze their influence on risks at entity level of the Company and take necessary measures to bring the Company's business activities and procedures in accordance with new regulations within the scope of controlled risk. In addition, introduction of new services is followed by necessary market and economic analysis in order to optimize the relation between income and the provision for estimated risks.

31.1. Credit Risk

Credit risk is the risk that a contractual party will not be able to fulfil the related contractual obligation, causing financial loss for the other party. Through its internal regulations and procedures, the Company implements an adequate system of credit risk management and reduces credit risk to an acceptable level.

The Company manages credit risk through setting credit risk limits for individual customers as well as for the group of customers.

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

Credit risk management is carried out at the following levels:

- individual level;
- group of related parties level; and
- entire portfolio level.

According to the Service Level Agreement with Banca Intesa a.d. Beograd, assessment of the credit worthiness of each client, after submission of the placement approval request, is performed as follows:

- The Company obtains all the necessary documentation from clients for the credit worthiness analysis.

- The collected documentation is sent to the Department for Credit Analysis of Banca Intesa a.d. Beograd for a further analysis of creditworthiness, repayment history and value of collateral.

- The Department for Credit Analysis of Banca Intesa a.d. Beograd makes a proposal of the decision for placement approval.

- The Company's Credit Committee, constituted of the Chairman and member of the Executive Board, makes the decision on placement approval based on the abovementioned proposal of the Department for Credit Analysis.

The Company's Credit Committee could approve independently leasing requirements under the following circumstances:

1. The Company's Credit Committee can approve lease placements to clients, or to a group of related parties, in cases when total exposure (aggregate exposure to Banca Intesa a.d. Beograd and Intesa leasing d.o.o. Beograd), including that of the new placement, is not higher than EUR 100,000 in dinar equivalent, using middle exchange rate of NBS on the day of decision.

2. The Company's Credit Committee can approve lease placements to clients, or to group of related parties that are classified as small, medium and large legal entities, when the amount is not higher than EUR 50,000. In these cases, previous exposure to abovementioned clients is not important, but total exposure cannot be higher than EUR 10 million, including the amount of required lease placement.

The Company manages the credit risk by setting up limits with respect to period, amount and results of the individual customer's creditworthiness, by diversification of placements to a larger number of customers and by contracting a foreign currency clause.

Furthermore, the Company manages credit risk through assessment and analysis of received collaterals, by providing allowance for impairment of receivables from finance lease activities, as well as by determining the adequate price of placement which covers the risk of a particular placement.

Total risk exposure to a single customer or a group of related parties regarding exposure limits is considered thoroughly and analyzed before the execution of transaction.

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

Credit risk management also includes concentration risk. The concentration risk is the risk of incurring losses due to an excessive volume of placements to a certain group of customers/debtors.

Groups of debtors can be categorized by different criteria, such as: related parties, regions or economic groups.

The amount and type of collateral required depends on an assessment of the creditworthiness of each customer, type of credit risk exposure, maturity as well as the amount of placement. The collateral amount as well as collateral type depends on the estimated credit risk.

Standard collaterals provided by customers, except the leased assets are bills of exchange.

Depending on the assessment, additional collaterals may be required, such as: real-estate mortgages, movable property pledges, stake or receivables pledges, buy-back contracts with suppliers and joint contracts with other entity which then becomes the joint debtor, as well as deposit as a guarantee for liability settlement.

In cases of real-estate mortgages or pledges on movables, the Company always obtains valuation of the assets carried out by an authorized appraiser, in order to reduce potential risk to a minimum.

In accordance with the Service Level Agreement, the Risk Management Department of Banca Intesa a.d. Beograd performs assessment for impairment of the Company’s receivables from finance lease activities.

During the process of assessment for impairment of receivables from finance lease activities the following factors are taken into account: days of delay in payment of principal and interest, cash flow deficiencies, breach of contractual terms, as well as deterioration in the client’s credit rating.

Impairment of the Company’s receivables from finance lease activities is performed as a collective assessment. Individual assessments are taken into account for non-performing exposures higher than EUR 250,000. The impairment provision is estimated monthly when every individual loan portfolio is analyzed.

In 2016, the professional body for managing non-performing placements was giving recommendations for finding the best possible solutions for dealing with bad and non-performing receivables.

(a) Portfolio Quality

The Company manages the quality of its financial assets by using an internal model for finance lease receivables grading. The following table presents the quality of the **gross portfolio,** i.e. receivables from finance lease activities excluding other receivables, accrued interest income and deferred origination fees (Note 18) and **allowances for impairment of receivables on finance lease activities** as at 31 December 2016, by types of receivables and based on the Company’s internal grading system:

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(a) Portfolio Quality (Continued)

	Performing	Past due	Unlikely to pay	Doubtful	Total 31/12/2016
Receivables from Banca Intesa a.d. Beograd	**29,189**	**-**	**-**	**-**	**29,189**
Receivables from Customers					
Corporate Customers	363,082	-	-	-	363,082
Medium Enterprises	1,947,068	-	-	28,050	1,975,118
Small Enterprises	3,864,256	22,670	19,636	31,816	3,938,378
Micro Enterprises	2,956,625	486	2,580	113,585	3,073,276
Entrepreneurs	238,420	-	-	6,757	245,177
Retail Customers	63,712	683	-	8,898	73,293
Farmers	144,997	-	-	66,851	211,848
Other Institutions	4,661	-	-	-	4,661
	9,582,821	**23,839**	**22,216**	**255,957**	**9,884,833**
Total	**9,612,010**	**23,839**	**22,216**	**255,957**	**9,914,022**
Participation in the total gross receivables	**96.96%**	**0.24%**	**0.22%**	**2.58%**	**100.00%**

	Performing	Past due	Unlikely to pay	Doubtful	Total 31/12/2016
Impairment provision Banca Intesa a.d. Beograd	**-**	**-**	**-**	**-**	**-**
Receivables from Customers					
Corporate Customers	7,366	-	-	-	7,366
Medium Enterprises	25,921	-	-	14,086	40,007
Small Enterprises	53,170	737	14,445	21,109	89,461
Micro Enterprises	46,662	92	1,491	112,189	160,434
Entrepreneurs	3,185	-	-	6,757	9,942
Retail Customers	189	103	-	8,473	8,765
Farmers	700	-	-	66,444	67,144
Other Institutions	27	-	-	-	27
Total	**137,220**	**932**	**15,936**	**229,058**	**383,146**
Participation in the total impairment provision	**35.81%**	**0.24%**	**4.16%**	**59.79%**	**100.00%**

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(a) Portfolio Quality (Continued)

The following table presents the quality of the **gross portfolio**, i.e. receivables from finance lease activities excluding other receivables, accrued interest income and deferred origination fees and **allowance for impairment of receivables from finance lease activities** as at 31 December 2015, by types of placements and based on the Company's internal grading system and impairment of receivables:

	Performing	Past due	Unlikely to pay	Doubtful	Total 31/12/2015
Receivables - Banca Intesa a.d. Beograd	**37,655**	**-**	**-**	**-**	**37,655**
Receivables from Customers					
Corporate Customers	525,581	11,562	10,669	-	547,812
Medium Enterprises	1,250,057	30,528	-	33,371	1,313,956
Small Enterprises	2,829,133	37,059	23,645	40,226	2,930,063
Micro Enterprises	1,865,695	46,181	1,390	115,870	2,029,136
Entrepreneurs	155,153	-	-	24,266	179,419
Retail Customers	48,186	1,112	939	9,009	59,246
Farmers	81,568	-	-	68,078	149,646
Other Institutions	9,940	-	-	-	9,940
	6,765,313	**126,442**	**36,643**	**290,820**	**7,219,218**
Total	**6,802,968**	**126,442**	**36,643**	**290,820**	**7,256,873**
Participation in the total gross receivables	**93.75%**	**1.74%**	**0.50%**	**4.01%**	**100.00%**

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(a) Portfolio Quality (Continued)

	Performing	Past due	Unlikely to pay	Doubtful	Total 31/12/2015
Impairment provision Banca Intesa a.d. Beograd	-	-	-	-	-
Receivables from Customers					
Corporate Customers	10,306	2,942	2,627	-	15,875
Medium Enterprises	17,929	2,278	-	29,635	49,842
Small Enterprises	54,983	9,147	17,883	27,444	109,457
Micro Enterprises	30,918	11,483	355	110,889	153,645
Entrepreneurs	3,036	-	-	24,266	27,302
Retail Customers	191	167	214	8,858	9,430
Farmers	404	-	-	67,481	67,885
Other Institutions	168	-	-	-	168
Total	**117,935**	**26,017**	**21,079**	**268,573**	**433,604**
Participation in the total impairment provision	**27.20%**	**6.00%**	**4.86%**	**61.94%**	**100.00%**

The following table presents the quality of the **net portfolio, i.e. receivables from finance lease activities** excluding other receivables, accrued interest income and deferred origination fees as at 31 December 2016 and 2015, by types of receivables and based on the Company’s internal grading system:

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(a) Portfolio Quality (Continued)

	Performing	Past due	Unlikely to pay	Doubtful	Total 31/12/2016
Receivables - Banca Intesa a.d. Beograd	**29,189**	**-**	**-**	**-**	**29,189**
Receivables-customers					
Corporate Customers	355,716	-	-	-	355,716
Medium Enterprises	1,921,147	-	-	13,964	1,935,111
Small Enterprises	3,811,086	21,933	5,191	10,708	3,848,918
Micro Enterprises	2,909,963	394	1,089	1,396	2,912,842
Entrepreneurs	235,235	-	-	-	235,235
Retail Customers	63,524	580	-	424	64,528
Farmers	144,297	-	-	407	144,704
Other Institutions	4,633	-	-	-	4,633
	9,445,601	**22,907**	**6,280**	**26,899**	**9,501,687**
Total	**9,474,790**	**22,907**	**6,280**	**26,899**	**9,530,876**
Participation in the total net receivables	**99.41%**	**0.24%**	**0.07%**	**0.28%**	**100.00%**

	Performing	Past due	Unlikely to pay	Doubtful	Total 31/12/2015
Receivables - Banca Intesa a.d. Beograd	**37,655**	**-**	**-**	**-**	**37,655**
Receivables-customers					
Corporate Customers	515,275	8,619	8,042	-	531,936
Medium Enterprises	1,232,129	28,249	-	3,735	1,264,113
Small Enterprises	2,774,150	27,911	5,764	12,782	2,820,607
Micro Enterprises	1,834,777	34,699	1,034	4,982	1,875,492
Entrepreneurs	152,116	-	-	-	152,116
Retail Customers	47,995	945	725	151	49,816
Farmers	81,164	-	-	597	81,761
Other Institutions	9,773	-	-	-	9,773
	6,647,379	**100,423**	**15,565**	**22,247**	**6,785,614**
Total	**6,685,034**	**100,423**	**15,565**	**22,247**	**6,823,269**
Participation in the total net receivables	**97.97%**	**1.47%**	**0.23%**	**0.33%**	**100.00%**

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(a) Portfolio Quality (Continued)

Ageing Structure of Overdue Receivables of High and Standard Quality

The ageing analysis of overdue receivables from customers of high and standard quality as at 31 December 2016 is presented in the table below:

	Up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total 31/12/2016
Receivables from Customers					
Corporate Customers	6,608	-	-	-	6,608
Medium Enterprises	11,496	896	-	-	12,392
Small Enterprises	27,643	56	-	-	27,699
Micro Enterprises	9,320	548	60	-	9,928
Entrepreneurs	1,312	225	147	-	1,684
Retail Customers	60	-	-	-	60
Farmers	291	135	-	-	426
Other Institutions	15	-	-	-	15
Total	**56,745**	**1,860**	**207**	**-**	**58,812**
Participation in total overdue receivables of high and standard quality	**96.49%**	**3.16%**	**0.34%**	**0.00%**	**100.00%**

The ageing analysis of overdue receivables from customers of high and standard quality as at 31 December 2015 is presented in the table below:

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(a) Portfolio Quality (Continued)

	Up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total 31/12/2015
Receivables from Customers					
Corporate Customers	7,188	-	-	-	7,188
Medium Enterprises	24,726	2,723	-	-	27,449
Small Enterprises	31,003	1,126	137	-	32,266
Micro Enterprises	5,785	633	1	-	6,419
Entrepreneurs	937	261	108	-	1,306
Retail Customers	261	687	17	-	965
Farmers	821	-	-	-	821
Other Institutions	51	-	-	-	51
Total	**70,772**	**5,430**	**263**	**-**	**76,465**
Participation in total overdue receivables of high and standard quality	**92.55%**	**7.10%**	**0.34%**	**0.00%**	**100.00%**

(b) Maximum Exposure to Credit Risk

The structure of the Company's maximum credit risk exposure presented at its **gross value of receivables from finance lease activities** excluding short term receivables, accrued interest income and deferred origination fees (Note 18) as at 31 December 2016, grouped by geographical sectors, is presented in the table below:

	Receivable from clients			**% Participation in total net receivables**
Vojvodina	3,828,987	(126,310)	3,702,677	38.85%
Belgrade	3,459,721	(141,511)	3,318,210	34.82%
South and East Serbia	475,629	(45,315)	430,314	4.51%
Sumadija and West Serbia	2,149,685	(70,010)	2,079,675	21.82%
Total	**9,914,022**	**(383,146)**	**9,530,876**	**100.00%**

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(b) Maximum Exposure to Credit Risk (Continued)

The structure of the Company's maximum credit risk exposure presented at its **gross value of receivables from finance lease activities** excluding short term receivables, accrued interest income and deferred origination fees (Note 18) as at 31 December 2015, grouped by geographical sectors, is presented in the table below:

Geographical region	Receivable from clients	Allowance for impairment	Total 31/12/2015	% Participation in total net receivables
Vojvodina	2,031,116	(145,264)	1,885,852	27.64%
Belgrade	2,889,280	(156,052)	2,733,228	40.06%
South and East Serbia	1,384,488	(67,314)	1,317,174	19.30%
Sumadija and West Serbia	951,989	(64,974)	887,015	13.00%
Total	**7,256,873**	**(433,604)**	**6,823,269**	**100.00%**

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(b) Maximum Exposure to Credit Risk (Continued)

The maximum exposure to a single geographic area is 55% of the total portfolio. In the reporting period, the Company didn't go over the maximum exposure limit laid down by geographical area.

Analysis of the Company's exposure to credit risk by sector and type of leased assets is stated at the value of gross placements, respectively, or receivables based on financial leasing excluding other receivables, advance of accrued interest income and deferred origination fees as at 31 December 2016 and 2015, grouped by industrial sectors, is presented in the table below:

Industry structure	Gross exposure 2016	Net exposure 2016	Gross exposure 2015	Net Exposure 2015
1. Agriculture, forestry and fishing (sector A)	375,123	3,94%	454,825	6,67%
2. Mining industry; Processing industry; Water supply, waste water management and related activities (sectors B, C and E)	1,303,063	13,67%	727,211	10,66%
3. Power supply, gas, steam supply and air conditioning (sector D)	7,640	0,08%	1,715	0,03%
4. Construction (sector F)	1,160,837	12,18%	672,364	9,85%
5. Wholesale and retail, vehicles and motorcycles repair (sector G)	783,249	8,22%	699,680	10,25%
6. Transportation and storage - information and communications (sectors H and J)	3,851,239	40,41%	2,564,069	37,58%
7. Hotels and restaurants (sector I)	146,903	1,54%	71,895	1,05%
8. Financial activities and insurance (sector K)	31,987	0,34%	49,607	0,73%
9. Health care and social work (sector Q)	47,061	0,48%	26,055	0,38%
10. Other industries (sectors L, M, N, O, P, R, S, T and U)	1,823,774	19,14%	1,555,848	22,80%
Total	**9,530,876**	**100%**	**6,823,269**	**100%**

The maximum exposure to a single sector is 50% of the total exposure. The Company in the reporting period did not go over the defined limit of sectorial structure. The biggest share in loans in both years have the sectors of transportation and storage. The largest increase in the share of 2.77% in the sectorial structure of the day 31 December 2016 is in the sector of Construction, and the largest decrease in the structure compared to the previous year is for the other industries sector in the amount of 3.66%.

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(b) Maximum Exposure to Credit Risk (Continued)

	Exposure by leased asset	Maximum exposure 2016	Percentage of exposure 2016	Maximum exposure 2015	Percentage of exposure 2015
1.	Production machines and equipment	61,995	0.65%	92,801	1.36%
2.	Construction machines and equipment	665,675	6.98%	446,225	6.54%
3.	Agricultural machines and equipment	416,467	4.37%	414,845	6.08%
4.	Trucks. vans and buses	4,623,972	48.52%	2,906,887	42.60%
5.	Passenger vehicles	1,284,559	13.48%	630,654	9.24%
6.	Rail vehicles, watercraft and aircraft	10,033	0.11%	22,496	0.33%
7.	House appliances	-	0.00%	-	0.00%
8.	Machines and equipment for service provision	3,580	0.04%	4,627	0.07%
9.	Other movables	919,606	9.65%	761,910	11.17%
10.	Commercial properties	1,541,943	16.17%	1,539,240	22.56%
11.	Other movables	3,046	0.03%	3,584	0.05%
	Total	**9,530,876**	**100%**	**6,823,269**	**100%**

The maximum exposure to the type of leased asset is 60% of the total exposure. In the reporting period, the Company did not exceed the limit of exposure by type of leased asset. The largest exposure in the observed periods was registered by types of leased assets, i.e. trucks, vans and buses with a slight increase in the percentage exposure in 2016 for 5.92%, which is also the largest increase in the percentage of exposure in 2016, while the biggest fall in the percentage of exposure was in the leased asset type Commercial properties property in the amount of 6.39%.

Exposure Risk

The Company monitors and measures exposure towards a single party or a group of related parties as well as compliance of the exposure indicators in the decision making process on placement approval.
Exposure to a single entity or a group of related parties is monitored through the following reports:

- Exposures to individual customers who have individually a higher amount of gross investments over 5 % compared to the capital of the Company;
- The ratio of total exposure to the 20 largest customers compared to the capital of the Company;
-The ratio of the total exposure of the rest of clients (except for the 20 largest) in relation to the capital of the Company.

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(b) Maximum Exposure to Credit Risk (Continued)

Exposure risk is measured in relation to the Company's equity. As of 31 December 2016, 33 clients with the largest net receivables individually have exposure risk exceeding 5% of the Company's equity (2015: 15 clients).

Total exposure to 20 largest clients in relation to the capital of the Company as at 31 December 2016 was 396.94%, comparative data for the year 2015 195.88%, or exposure to the 20 largest customers in relation to the capital of the Company in 2016 is increased by 201.06% compared to the previous year. The reason for increase in number of clients with expose higher than 5% and exposure of 20 largest clients is lowering of capital (Note 26 and 28).

One client has risk exposure exceeding maximum risk exposure of 25% of the Company's equity, established as a limit in policy for managing credit risk exposure. For the Client who has risk exposure greater than 25% of the Company's equity, the Company has provided the consent of the Board of Directors to exceed the defined limit of exposure.

Net receivables from 20 largest clients as at 31 December 2016 amounted to RSD 3,954,071 thousand (31 December 2015: RSD 3,196,364 thousand).

All other clients, on the 31 December 2016 had the exposure of RSD 6,067,440 thousand (31 December 2015: RSD 4,267,066 thousand).

As a way of hedging credit risk the Company takes collaterals for certain receivables, especially mortgages and special purpose term deposits from clients and pledges over leased assets.

The effect on impairment of receivables from finance lease excluding receivables for damages after the sale of the leased asset and deduction for pre- charged handling costs is represented in the following table:

	2016	**2015**
Carrying amount of the allowance for impairment for receivables	392,232	442,640
Allowance for impairment of receivables without collateral	662,548	622,654
Effect on the calculation of the allowance for impairment of receivables	**270,316**	**180,014**
Effect on the calculation of collective allowances for impairment	252,872	153,476
Effect on the calculation of individual allowances for impairment	17,444	26,538

Amounts presented as effects on the calculation of the allowance for impairment of receivables, and reflect what the calculation of the allowance for impairment would have been had collateral not been included in the calculation.

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(b) Maximum Exposure to Credit Risk (continued)

As at 31 December 2016 the Company has one client in the portfolio who does not have any late payments and no allowance for impairment, it being Banca Intesa ad Belgrade (Note 31.1).

As at reporting date the Company does not have any overdue financial assets without any allowance for impairment.

Analysis of collateral

Analysis of the portfolio by collateral type at 31 December 2016 and 31 December 2015 is given in the following table:

	2016		2015	
	Gross placement	The total value of the collateral	Gross placement	The total value of the collateral
Receivables to corporate customers:	**9,811,383**	**11,515,826**	**6,829,775**	**10,443,301**
Secured by mortgage	1,761,801	1,761,801	331,295	331,295
Secured by deposit	632,073	632,073	621,671	621,721
Secured by leased asset	7,417,509	9,121,952	5,876,809	9,490,285
Unsecured by collateral	-	-	-	-
Receivables to retail customers:	**73,293**	**100,123**	**388,311**	**490,116**
Secured by mortgage	-	-	-	-
Secured by deposit	-	-	1,042	1,042
Secured by leasing asset	73,293	100,123	387,269	489,074
Unsecured by collateral	-	-	-	-
Receivables to Banks :	**29,189**	**30,392**	**37,655**	**33,227**
Secured by mortgage	-	-	-	-
Secured by deposit	-	-	-	-
Secured by leasing asset	29,189	30,392	33,227	33,227
Unsecured by collateral	-	-	4,428	-
Receivables to State and Local Government	**157**	**337**	**1,132**	**1,874**
Secured by mortgage	-	-	-	-
Secured by deposit	-	-	-	-
Secured by leasing asset	157	337	1,132	1,874
Unsecured by collateral	-	-	-	-
Total at 31 December	**9,914,022**	**11,646,678**	**7,256,873**	**10,968,518**

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(b) Maximum Exposure to Credit Risk (Continued)

All collaterals are stated at the amount of loan. Mortgages as collateral must further satisfy the following conditions: to be recorded in the appropriate register, a valuation report for the particular property not older than 3 years as performed by a certified appraiser, the property owner is not in bankruptcy, the appraised value of real estate must be reduced by the amount of all claims with higher priority ranking which are not higher than the receivables amount, that the mortgage secured receivable is not settled with a delay of 720 days.

Analysis of collateral

A presentation of the ratio between receivables and collateral value (LTV ratio) at 31 December 2016 and 31 December 2015 is given in the following table:

2016		2015	
LTV ratio	Amount of receivable	LTV ratio	Amount of receivable
<50%	556,170	<50%	388,236
51% - 70%	641,864	51% - 70%	241,160
71% - 90%	1,287,195	71% - 90%	651,735
91% - 100%	1,174,133	91% - 100%	648,457
>100%	6,254,660	>100%	5,327,285
Total	**9,914,022**	**Total**	**7,256,873**

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(c) Assessment of Impairment of Financial Assets

Structure of the **allowance for impairment of financial assets, i.e. receivables from finance lease activities** excluding short term receivables, accrued interest income and deferred origination fees as at 31 December 2016 and 2015 is presented below:

2016	Gross receivables from finance lease activities	Allowance for impairment	Net receivables from finance lease activities
Receivables Banca Intesa a.d. Beograd	29,189	-	29,189
Corporate customers	363,082	(7,366)	355,716
Medium enterprises	1,975,118	(40,009)	1,935,109
Small enterprises	3,938,378	(89,460)	3,848,918
Micro enterprises	3,073,276	(160,434)	2,912,842
Entrepreneurs	245,177	(9,942)	235,235
Retail customers	73,293	(8,764)	64,529
Farmers	211,848	(67,144)	144,704
Other institutions	4,661	(27)	4,634
Total	**9,914,022**	**(383,146)**	**9,530,876**

2015	Gross receivables from finance lease activities	Allowance for impairment	Net receivables from finance lease activities
Receivables Banca Intesa a.d. Beograd	37,655	-	37,655
Corporate customers	547,812	(15,876)	531,936
Medium enterprises	1,313,955	(49,842)	1,264,113
Small enterprises	2,930,065	(109,457)	2,820,608
Micro enterprises	2,029,135	(153,643)	1,875,492
Entrepreneurs	179,419	(27,303)	152,116
Retail customers	59,246	(9,430)	49,816
Farmers	149,646	(67,884)	81,762
Other institutions	9,940	(169)	9,771
Total	**7,256,873**	**(433,604)**	**6,823,269**

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(c) Assessment of Impairment of Financial Assets

Structure of impairment of financial assets by the model of impairment calculation as at 31 December 2016 and 2015 is presented in the following table:

Structure of impairment 2016	Gross receivables from finance lease activities	% gross receivables	Impairment	% total impairment
Group impairment assessment	9,802,835	98.88%	(304,317)	79.43%
Individual impairment assessment	111,187	1.12%	(78,829)	20.59%
Total	**9,914,022**	**100%**	**(383,146)**	**100%**

Structure of impairment 2015	Gross receivables from finance lease activities	% gross receivables	Impairment	% total impairment
Group impairment assessment	7,050,104	97.15%	(305,518)	70.46%
Individual impairment assessment	206,769	2.85%	(128,086)	29.54%
Total	**7,256,873**	**100%**	**(433,604)**	**100%**

31.2. Liquidity Risk

Liquidity risk is the risk that the Company would not be able to settle its liabilities when they fall due. The Company's liquidity depends primarily on maturity matching of assets and liabilities, i.e. matching of cash inflows and cash outflows.

The Company's management monitors the maturity structure of receivables and liabilities and makes projections of cash flows from operating activities.

Objectives of liquidity management comprise:

- Planning of cash inflows and outflows; and
- Implementation and monitoring of liquidity indicators.

Liquidity risk is measured by permanent monitoring and analysis of the maturity structure of assets and liabilities through appropriate reports and indicators and a Report on structural maturity mismatch (Maturity mismatch).

31. RISK MANAGEMENT (Continued)

31.2. Liquidity Risk (Continued)

Department for Finance and Operations is responsible for measuring and monitoring of liquidity, as well as for the regular preparation of reports which present the effects of the movements in various categories of assets and liabilities to the Company's liquid asset position.

In cash flow projections the Company takes into account the historical percentage of collection of receivables (behavioral coefficient), both for receivables that will fall due in the following period, as well as for those that are overdue and not yet collected.

Furthermore, the Company has contracted credit lines as an instrument for liquidity management as of 31 December 2016.

The table below analyses assets and liabilities of the Company into relevant maturity groupings based on the remaining maturity period on the reporting date to the contractual maturity date. The table is made based on determined payments conditions. Contractual maturities of assets and liabilities are determined based on the remaining maturity as at the balance sheet date. The column Gross exposure in the following tables report amounts of assets and liabilities without deducting for impairment.

The Maturity mismatch report as at 31 December 2016 indicates high level of liquidity, especially in the period of the next 5 years.

	Carrying amount	Gross amount	Up to 30 days	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months to 5 years	Over 5 years	Undefined maturity
ASSETS										
Cash	75,128	75,128	75,128	-	-	-	-	-	-	-
Financial placements held with banks	1,767,255	1,767,255	1,767,255	-	-	-	-	-	-	-
Other financial investments and derivatives	1,008,076	1,008,076	894,941	10,685	-	1,377	-	89,844	-	11,229
Repossessed leased assets and inventories	9,494,021	9,886,252	789,187	606,323	735,179	1,362,232	1,171,339	5,033,516	256,185	(67,709)
Repossessed leased assets and inventories	417,379	417,379	-	-	-	-	-	-	-	417,379
Intangible assets	8,505	29,796	-	-	-	-	-	-	-	29,796
Property. plant and equipment	8,799	26,295	-	-	-	-	-	-	-	26,295
Deferred tax assets	2,121	2,121	-	-	-	-	-	-	-	2,121
Other assets	21,416	109,322	16,788	1,135	60	2,144	-	-	-	89,195
TOTAL ASSETS	**12,802,700**	**13,321,624**	**3,543,299**	**618,143**	**735,239**	**1,365,753**	**1,171,339**	**5,123,360**	**256,185**	**508,306**
LIABILITIES AND EQUITY										
Borrowings from banks and other financial institutions	10,906,564	10,906,564	936,228	55,470	2,660,981	1,098,652	781,727	4,531,453	883,513	(41,460)
Provisions	238	238	-	-	-	-	-	-	-	238
Current tax liabilities	7,426	7,426	-	-	7,426	-	-	-	-	-
Other liabilities	902,398	902,398	39,006	50,656	797,026	2,574	-	-	-	13,136
Total liabilities	**11,816,626**	**11,816,626**	**975,234**	**106,126**	**3,465,433**	**1,101,226**	**781,727**	**4,531,453**	**883,513**	**(28,086)**
Stake capital	960,374	960,374	-	-	-	-	-	-	-	960,374
Unrealized gains/losses	11,229	11,229	-	-	-	-	-	-	-	11,229
Gains	14,471	14,471	-	-	-	-	-	-	-	14,471
Equity	**986,074**	**986,074**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**986,074**
TOTAL LIABILITIES AND EQUITY	**12,802,700**	**12,802,700**	**975,234**	**106,126**	**3,465,433**	**1,101,226**	**781,727**	**4,531,453**	**883,513**	**957,988**
Liquidity gap as at:										
- 31 December 2016		**518,924**	**2,568,065**	**512,017**	**(2,730,194)**	**264,527**	**389,612**	**591,907**	**(627,328)**	**(449,682)**
Cumulative liquidity gap		**518,924**	**2,568,065**	**3,080,082**	**349,888**	**614,415**	**1,004,027**	**1,595,934**	**968,606**	**518,924**

31. RISK MANAGEMENT (Continued)

	Carrying amount	Gross amount	Up to 30 days	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months to 5 years	Over 5 years	Undefined maturity
ASSETS										
Cash	1,240,864	1,240,864	1,240,864	-	-	-	-	-	-	-
Financial placements held with banks	-	-	-	-	-	-	-	-	-	-
Other financial investments and derivatives	987,953	987,953	-	-	-	475,307	-	512,646	-	-
Receivables from finance lease activities	6,793,808	7,236,448	682,823	439,404	546,583	988,548	842,094	3,543,546	248,199	(54,749)
Repossessed leased assets and inventories	96,579	96,579	-	-	-	-	-	-	-	96,579
Intangible assets	8,858	27,138	-	-	-	-	-	-	-	27,138
Property. plant and equipment	6,412	27,692	-	-	-	-	-	-	-	27,692
Current tax assets	2,386	2,386	-	-	-	-	-	-	-	2,386
Other assets	226,375	415,979	5,210	213,163	-	6,552	-	-	-	191,054
TOTAL ASSETS	**9,363,235**	**10,035,039**	**1,928,897**	**652,567**	**546,583**	**1,470,407**	**842,094**	**4,056,192**	**248,199**	**290,100**
LIABILITIES AND EQUITY										
Borrowings from banks and other financial institutions	7,325,543	7,325,543	827,797	148,572	504,138	1,412,871	597,532	3,069,814	810,841	(46,022)
Provisions	227	227	-	-	-	-	-	-	-	227
Current tax liabilities	5,340	5,340	-	-	5,340	-	-	-	-	-
Other liabilities	400,331	400,331	227,260	165,940	-	4,034	-	-	-	3,097
Total liabilities	**7,731,441**	**7,731,441**	**1,055,057**	**314,512**	**509,478**	**1,416,905**	**597,532**	**3,069,814**	**810,841**	**(42,698)**
Stake capital	960,374	960,374	-	-	-	-	-	-	-	960,374
Reserves	4,633	4,633	-	-	-	-	-	-	-	4,633
Retained earnings	666,787	666,787	-	-	-	-	-	-	-	666,787
Equity	**1,631,794**	**1,631,794**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,631,794**
TOTAL LIABILITIES AND EQUITY	**9,363,235**	**9,363,235**	**1,055,057**	**314,512**	**509,478**	**1,416,905**	**597,532**	**3,069,814**	**810,841**	**1,589,096**
Liquidity as at:										
- 31 December 2015		**671,804**	**873,840**	**338,055**	**37,105**	**53,502**	**244,562**	**986,378**	**(562,642)**	**(1,298,996)**
Cumulative liquidity gap		**671,804**	**873,840**	**1,211,895**	**1,249,000**	**1,302,502**	**1,547,064**	**2,533,442**	**1,970,800**	**671,804**

31. RISK MANAGEMENT (Continued)

31.3. Market Risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates, securities prices and the price of goods.

In its ordinary course of business, the Company is exposed to the fluctuations in market variables which might affect the Company's financial result in a positive or a negative way. These variables are:

- Interest rate risk;
- Foreign currency risk; and
- Risk of changes in prices of goods.

Risk of changes in price of goods is significant considering that leased assets can be used as collateral in case of termination of lease contracts.

Almost all types of leased assets recorded a decrease in value due to market and technological reasons.

31.3.1. Interest Rate Risk

Interest rate risk is the risk of the occurrence of adverse effects on the Company's financial result and equity due to changes in market interest rates.

The Company is exposed to interest rate risk, which affects its financial position and cash flows through changes in the level of market interest rates, and which is caused by the mismatch of maturity of assets and liabilities with fixed interest rates.

The exposure to interest rate risk depends on the ratio of the interest-sensitive assets and liabilities of the Company. Therefore, the Company controls the interest rate risk by monitoring the ratio of the interest-bearing assets, i.e. liabilities and the percentage thereof in the total asset, i.e. liabilities.

The following table shows the Repricing Gap Report, i.e. the Company's exposure to the interest rate risk as at 31 December 2016. The table includes the Company's assets and liabilities at their carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

The Repricing Gap Report determines the difference between interest-sensitive assets and interest-sensitive liabilities for various time intervals in the future. Based on the determined gaps, profit and equity sensitivity analysis is carried out for certain changes in market interest rates.

31. RISK MANAGEMENT (Continued)

31.3.1. Interest Rate Risk (Continued)

	Carrying amount	Up to 30 days	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months do 5 years	Over 5 years	Undefined maturity
ASSETS									
Cash	75,128	75,127	-	-	-	-	-	-	1
Financial placements held with banks	1,767,255	-	-	-	-	-	-	-	1,767,255
Other financial investments and derivatives	1,008,076	-	-	-	509,906	-	486,108	-	12,062
Receivables from finance lease activities	9,494,021	460,709	266,659	5,831,490	594,453	538,054	2,222,436	222	(420,002)
Repossessed lease assets and inventories	417,379	-	-	307,226	-	-	-	-	110,153
Intangible assets	8,505	-	-	-	-	-	-	-	8,505
Property. plant and equipment	8,799	-	-	-	-	-	-	-	8,799
Deferred tax assets	2,121	-	-	-	-	-	-	-	2,121
Other assets	21,416	-	-	-	-	-	-	-	21,416
TOTAL ASSETS	**12,802,700**	**535,836**	**266,659**	**6,138,716**	**1,104,359**	**538,054**	**2,708,544**	**222**	**1,510,310**
LIABILITIES AND EQUITY									
Borrowings from banks and other financial institutions	10,906,564	1,476,886	2,203,133	3,539,863	566,398	278,430	2,082,440	773,222	(13,808)
Provisions	238	-	-	-	-	-	-	-	238
Current tax liabilities	7,426	-	-	-	-	-	-	-	7,426
Other liabilities	902,398	-	-	-	-	-	-	-	902,398
Total liabilities	**11,816,626**	**1,476,886**	**2,203,133**	**3,539,863**	**566,398**	**278,430**	**2,082,440**	**773,222**	**896,254**
Stake capital	960,374	-	-	-	-	-	-	-	960,374
Reserves	11,229	-	-	-	-	-	-	-	11,229
Profit	14,471	-	-	-	-	-	-	-	14,471
Equity	**986,074**								**986,074**
TOTAL LIABILITIES AND EQUITY	**12,802,700**	**1,476,886**	**2,203,133**	**3,539,863**	**566,398**	**278,430**	**2,082,440**	**773,222**	**1,882,328**
		(941,050)	(1,936,474)	2,598,853	537,961	259,624	626,104	(773,000)	(372,018)
GAP as at 31 December 2016									
Cumulative GAP		**(941,50)**	**(2,877,524)**	**(278,671)**	**259,290**	**518,914**	**1,145,018**	**372,018**	**-**

31. RISK MANAGEMENT (Continued)

31.3.1. Interest Rate Risk (Continued)

	Carrying amount	Up to 30 days	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months do 5 years	Over 5 years	Undefined maturity
ASSETS									
Cash	1,240,864	1,240,863	-	-	-	-	-	-	1
Financial placements held with banks	-	-	-	-	-	-	-	-	-
Receivables from finance lease activities	987,953	-	-	-	475,307	-	512,646	-	-
Repossessed lease assets and inventories	6,793,808	4,066,409	100,869	1,756,919	207,303	208,331	910,969	6,073	(463,065)
Intangible assets	96,579	-	-	-	-	-	-	-	96,579
Property. plant and equipment	8,858	-	-	-	-	-	-	-	8,858
Deferred tax assets	6,412	-	-	-	-	-	-	-	6,412
Other assets	2,386	-	-	-	-	-	-	-	2,386
	226,375	-	-	-	-	-	-	-	226,375
TOTAL ASSETS									
	9,363,235	**5,307,272**	**100,869**	**1,756,919**	**682,610**	**208,331**	**1,423,615**	**6,073**	**(122,454)**
LIABILITIES AND EQUITY									
Financial placements held with banks									
Provisions	7,325,543	815,541	1,870,063	2,423,805	895,757	93,247	576,519	675,038	(24,427)
Current tax liabilities	227	-	-	-	-	-	-	-	227
Other liabilities	5,340	-	-	-	-	-	-	-	5,340
TOTAL LIABILITIES	400,331	-	-	-	-	-	-	-	400,331
Stake capital	**7,731,441**	**815,541**	**1,870,063**	**2,423,805**	**895,757**	**93,247**	**576,519**	**675,038**	**381,471**
Unrealized gains/losses	960,374	-	-	-	-	-	-	-	960,374
Gains	4,633	-	-	-	-	-	-	-	4,633
Equity	666,787	-	-	-	-	-	-	-	666,787
	1,631,794	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,631,794**
TOTAL LIABILITIES AND EQUITY		**815,541**	**1,870,063**	**2,423,805**	**895,757**	**93,247**	**576,519**	**675,038**	**2,013,265**
Periodic GAP as at:	**9,363,235**	**4,491,731**	(1,769,194)	**(666,886)**	**(213,147)**	**115,084**	**847,096**	**(668,965)**	**(2,135,719)**
- 31 December 2015									
Cumulative GAP		**4,491,731**	**2,722,537**	**2,055,651**	**1,842,504**	**1,957,588**	**2,804,684**	**2,135,719**	**-**

31. RISK MANAGEMENT (Continued)

31.3.1. Interest Rate Risk (Continued)

The total cumulative gap of up to 1 year amounts to RSD 259,292 thousand, and can be considered to be at an acceptable interest matching level.

Interest rate risk is also monitored by using scenario analysis, i.e. by monitoring the influence of interest rate changes on the Company's revenues and expenses.

Interest rate risk can be presented as follows:

Table 1 – Interest rates changes

Date: 31 December 2016 (Report: end of the month)

Sensitivity to change (+200 b.p.)

(In thousands RSD)	Total	0-18 months	18 months – 3 years	3 – 5 years	5 – 10 years	10 – 15 years	> 15 years
Currency	34,472	(29,609)	(38,734)	17,825	75,408	9,582	-
EUR	85,373	(17,872)	(8,318)	26,573	75,408	9,582	-
RSD	(50,901)	(11,737)	(30,416)	(8,748)	-	-	-

By changing interest rate for 2%, the effect on income and expenses of the Company would be RSD 34,472 thousand, which is less than the limit of 20% compared to capital RSD 197,215 thousand.

Interest rate risk limit is a measure of acceptable risk to which the Company may be exposed. Limit is measured with change in net asset value due to changes in interest rates of + 200bp and must not be greater than 20% of regulatory capital of the Company. The Company measures and reports to the parent company about interest rate risk exposure. In case of breaching the allowed limit, necessary steps are to be promptly taken in order to repair the breach.

Forms of risks that may be subject to monitoring are:

- The risk of maturity mismatch when repricing interest rates (repricing risk). When considering interest sensitive positions bearing fixed interest rates, the risk arises from different maturities of assets and liabilities, while interest sensitive positions bearing floating interest rates. the risk arises due to different moment of re-establishing interest rates;
- Risk of the yield curve is the risk of changing the shape of the yield curve;
- Basic risk is the risk of exposure to various benchmark interest rates for interest-sensitive positions with similar characteristics as far as maturity and repricing;
- Optionality risk, the risk of re-determining the interest rate after the implementation of contractual provisions with interest-sensitive positions (i.e. early repayment).

The Company measures and reports interest rate risks arising from re-determination of interest rates (repricing risk). Interest rate risk arising from changes in the yield curve, the baseline risk and optionality risk are immaterial

31. RISK MANAGEMENT (Continued)

31.3.1. Interest Rate Risk (Continued)

Banking Book: The sensitivity of net interest income

Company: Intesa Leasing d.o.o. Beograd

Table 2 – Sensitivity

Date: 31 December 2016	Increase						Decrease					
	+100 b.p.			+200 b.p.			-100 b.p.			-200 b.p		
	A vista	Term	Total	A vista	Term	Total	A vista	Term	Total	A vista	Term	Total
Intesa Leasing d.o.o. Beograd	-	(18,879)	(18,879)	-	(34,472)	(34,472)	-	18,879	18,879	-	34,472	34,472
Assets	-	123,015	123,015	-	242,010	242,010	-	(123,015)	(123,015)	-	(242,010)	(242,010)
Banks	-	16,062	16,062	-	31,490	31,490	-	(16,062)	(16,062)	-	(31,490)	(31,490)
Placements with Clients	-	106,953	106,953	-	210,520	210,520	-	(106,953)	(106,953)	-	(210,520)	(210,520)
Liabilities and Equity	-	(141,894)	(141,894)	-	(276,482)	(276,482)	-	141,894	141,894	-	276,482	276,482
Liabilities to Banks	-	(141,894)	(141,894)	-	(276,482)	(276,482)	-	141,894	141,894	-	276,482	276,482

31. RISK MANAGEMENT (Continued)

31.3.2. Foreign currency risk

Foreign currency risk is the risk of adverse effects on the Company's financial result and equity due to changes in foreign exchange rates.

The foreign currency risk protection principle is to achieve and maintain the foreign currency assets at least in the amount equal to foreign currency liabilities. This ratio is also reconciled from the aspects of maturities of foreign currency receivables and foreign currency liabilities.

In order to manage foreign currency risk, the Company negotiates finance lease contracts in EUR, with annuities paid in the dinar equivalent at the applicable contract exchange rate. Offering finance lease in different currencies leads to the exposure to exchange rates fluctuations for different currencies. In accordance with the Company's internal policy, as well as potential fluctuations in exchange rates, the open foreign currency position limit has been set up to EUR 300 thousand for the position in EUR, and to CHF 100 thousand for the position in CHF.

The Company measures the foreign currency risk on a daily basis, according to the methodology established in the Procedure for managing foreign currency risk based on the methodology of the National Bank of Serbia, through the Report on the foreign currency risk indicator. During 2016, the Company strictly paid attention to the compliance of the foreign currency risk indicator with the prescribed limit.

The total open foreign exchange position as at 31 December 2016 amounted to RSD 27,802 thousand, while the foreign currency risk indicator amounted to 2.82% of the equity. As at 31 December 2015 total open foreign position was RSD 9,736 thousand, while the foreign risk indicator was 0.60% of the equity.

31. RISK MANAGEMENT (Continued)

31.3.2. Foreign currency risk (Continued)

The following table shows the Company's exposure to foreign currency risk as at 31 December 2016:

	Carrying amount	RSD	EUR	CHF
ASSETS				
Cash	75,128	75,128	-	-
Financial placements in banks	1,767,255	-	1,767,255	-
Other financial investments and derivatives	1,008,076	1,008,076	-	-
Receivables from finance lease activities	9,494,021	647,997	8,845,972	52
Repossessed leased assets and inventories	417,379	16,047	401,332	-
Intangible assets	8,505	8,505	-	-
Property. plant and equipment	8,799	8,799	-	-
Deferred tax assets	2,121	2,121	-	-
Other assets	21,416	19,285	2,131	-
TOTAL ASSETS	**12,802,700**	**1,785,958**	**11,016,690**	**52**
LIABILITIES AND EQUITY				
Borrowings from banks and other financial institutions	10,906,564	(35,845)	10,942,409	-
Provisions	238	238	-	-
Current tax liabilities	7,426	7,426	-	-
Other liabilities	902,398	855,867	46,531	-
Total liabilities	**11,816,626**	**827,686**	**10,988,940**	**-**
Stake capital	960,374	960,374	-	-
Unrealized gains/losses	11,229	11,229	-	-
Gains	14,471	14,471	-	-
Equity	**986,074**	**986,074**	**-**	**-**
LIABILITIES AND EQUITY	**12,802,700**	**1,813,760**	**10,988,940**	**-**
Net foreign currency position 31 December 2016		**(27,802)**	**27,750**	**52**

31. RISK MANAGEMENT (Continued)

31.3.2. Foreign currency risk (Continued)

The following table shows the Company's exposure to foreign currency risk as at 31 December 2015:

	Carrying amount	RSD	EUR	CHF
ASSETS				
Cash	1,240,864	1,240,864	-	-
Financial placements in banks	-	-	-	-
Other financial investments and derivatives	987,953	987,953	-	-
Receivables from finance lease activities	6,793,808	294,165	6,497,061	2,582
Repossessed leased assets and inventories	96,579	1,031	95,548	-
Intangible assets	8,858	8,858	-	-
Property. plant and equipment	6,412	6,412	-	-
Deferred tax assets	2,386	2,386	-	-
Other assets	226,375	223,709	2,666	-
TOTAL ASSETS	**9,363,235**	**2,765,378**	**6,595,275**	**2,582**
LIABILITIES AND EQUITY				
Borrowings from banks and other financial institutions	7,325,543	755,530	6,570,013	-
Provisions	227	227	-	-
Current tax liabilities	5,340	5,340	-	-
Other liabilities	400,331	362,751	37,580	-
Total liabilities	**7,731,441**	**1,123,848**	**6,607,593**	**-**
Stake capital	960,374	960,374	-	-
Unrealized gains/losses	4,633	4,633	-	-
Gains	666,787	666,787	-	-
Equity	**1,631,794**	**1,631,794**	**-**	**-**
LIABILITIES AND EQUITY	**9,363,235**	**2,755,642**	**6,607,593**	**-**
Net foreign currency position 31 December 2016		**9,736**	**(12,318)**	**2,582**

The following table shows the effects of changes in exchange rates on the Company's result:

Scenario	**Effect on 2016 Statement of profit and loss**	**Effect on 2015 Statement of profit and loss**
10% depreciation of RSD	6,730	7,274
20% depreciation of RSD	13,246	14,720

As shown above, in the case of depreciation of the dinar exchange rate by 10%, the effect on the result and the equity of the Company would be positive in the amount of RSD 6,730 thousand.

Foreign exchange risk indicator in the event of the depreciation of the dinar exchange rate by 10% would be 3.50%, and in the case of the depreciation of the dinar exchange rate by 20% would be 4.16%.

31. RISK MANAGEMENT (Continued)

31.3.2. Foreign currency risk (Continued)

Instruments for managing foreign currency position stem out directly from the parameters of the foreign exchange position, and according to level of operability for the Company, can be sorted in the following order:

1. Buying and selling foreign currencies for dinars
2. Withdrawal / Repayment of borrowings with foreign currency clause (foreign currency denominated liabilities)
3. Approval / Repayment of receivables from finance lease activities with foreign currency clause (foreign currency denominated assets)

1. Increase in outstanding amount of borrowings with foreign currency clause is used as the contrary position made upon approving finance agreements with foreign currency clause.

2. Approving finance lease agreements with foreign currency clause leads to open foreign currency position, while repayment of such placement leads to closing of that position.

3. The most useful instrument for managing foreign currency position is buying and selling foreign currencies for dinars, so appropriate position can be established on a daily basis. The transaction is performed via Treasury department of Banca Intesa a.d. Beograd that provides pricing for the transaction.

31.4. Operational Risk

Operational risk is the risk of adverse effects on the Company's financial result and equity due to failures in performance of operating activities, human mistakes, system errors and influence of external factors.
The function of operational risk management process is to identify, assess, control and minimize the possibility of occurrence and effect of operational risks and net losses.

The Company cannot eliminate all operational risks, but it is able to identify, through the processes of recording and analyzing the operational risks, the failures in its processes, products and procedures. Through improving its processes, products and procedures, the Company is able to decrease frequency as well as the negative influence of operational losses on its business and profitability.

An important aspect of the operational risk management is informing the management on significant operational risks in a timely manner, as well as permanent education of all employees involved in the process of collecting data on operational risks and comprehensive awareness development on the importance of identification, measurement, control and mitigation of operational risks.

Operational risks comprise:
(1) Internal fraud and activities;
(2) External fraud and activities;
(3) Relations with employees and safety at work;
(4) Damages on fixed assets;
(5) Business interruption and system failure;
(6) Clients, products and business practice; and
(7) Execution, delivery and process management, etc.

31. RISK MANAGEMENT (Continued)

31.4. Operational Risk(Continued)

During 2016 and 2015 operational risks were traced through the “Serenity” application. Tracing and recording of identified events that cause the Company’s operational risks is performed by operational risk monitoring coordinators.

Data input is performed in real time, meaning that an event can be traced right after it has been identified, Coordinators record the event not later than 48 hours after it has been identified. The event can be recorded as a draft version, and during that time coordinators have access to the document.

When all available data on the event are entered in the application, it becomes visible to the verifier whose job is to recheck the data about the event and to approve them. The event also needs to be approved within 48 hours.

During 2016 there were two operational risk events:

Type of operational risk which occurred was other risk. The loss for the current year for first operational risk occurred due to change in method of calculating interest and amounted to EUR 1.1 thousand. The total estimated loss of the Company due to this risk was EUR 3.6 thousand and RSD 7 thousand.

The estimated potential loss for the second operational risk is RSD 799 thousand, and because the risk was identified early, the event did not have material consequences for the Company.

31.5. Fair Value of Financial Assets and Liabilities

It is Company policy to disclose the fair value information of those components of assets and liabilities for which published or quoted market prices are readily available, and of those for which the fair value may be materially different than their carrying amounts.

A market price, where an active market exists, is the best evidence of the fair value of a financial instrument. However, market prices are not available for a significant number of financial assets and liabilities held by the Company. Therefore, for financial instruments where no market price is available, the fair values of financial assets and liabilities are estimated using present value or other estimation and valuation techniques based on current prevailing market conditions.

In the Republic of Serbia, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, because official market prices are not readily available. The Company’s management assesses its overall risk exposure, and in instances in which it estimates that the value of assets stated in its books may not have been realized, it recognizes an impairment provision.

Based on detailed analyses, the Company’s management deems that the fair value of financial assets and liabilities of the Company approximates their carrying amounts at the reporting date.

The Company’s financial instruments carried at amortized cost mostly bear variable interest rates that reflect current market conditions, excluding securities.

31. RISK MANAGEMENT (Continued)

31.5. Fair Value of Financial Assets and Liabilities (Continued)

Determination of fair value of financial instruments, which are presented at amortized cost has to respect the criteria, principles and hierarchy defined by the Policy of fair value, which is in line with the rules of fair valuation of the ISP group. Measuring the fair value of financial instruments, which are not presented at amortized cost, respects the following hierarchy which reflects the credibility of inputs used in determining fair value:

Level 1: inputs are quoted market prices (without adjustment) in active markets for identical instruments;

Level 2: inputs that are not quoted prices included in Level 1, but they are directly or indirectly (derived from price) is quoted in the market. This category includes: market interest rates, market quotations of CDS (credit default swap) market prices of bonds with a primary auction or market exchange rates at define value of instruments.

Level 3: Inputs for which there are no information from the market available. This category includes all instruments for which information on the value of the input is not directly or indirectly measurable in the market.

The application of this hierarchy is required and the Company is not free in the choice of the information used to determine the fair value of financial instruments which are not presented at amortized cost, and must respect the above hierarchy.

Financial instruments which are stated at fair value and respect the rules of the Policy of fair value are:

-Financial assets available for sale, which include dinars treasury bills of the Republic of Serbia are measuring by discounting future contractual cash flows, using market risk free yield curve adjusted to liquidity risk (level 2);

-Dinar government bonds, for which there is a liquid and active market but are not quoted (Level 2).

The following table shows the value of financial instruments stated at fair value in the balance sheet of the Company, measured on the basis of different information in accordance with the hierarchies within the prescribed Policies for fair value:

Fair value in thousand RSD 2016	Level 1	Level2	Level3	Total Fair Value	Carrying value
Other financial placements and derivatives	-	1,008,076	-	1,008,076	1,008,076
TOTAL	-	1,008,076	-	1,008,076	1,008,076

31. RISK MANAGEMENT (Continued)

31.5. Fair Value of Financial Assets and Liabilities (Continued)

Fair value in thousand RSD 2015	Level 1	Level2	Level3	Total Fair Value	Carrying value
Other financial placements and derivatives	-	987,953		987,953	987,953
TOTAL	-	987,953		987,953	987,953

The following table shows the fair value of instruments that are not valued at fair value in the balance sheet of the Company and are allocated according to the respective levels of the fair value hierarchy:

Fair value as at 31 December 2016 and 31 December 2015 are showed below:

Fair value in thousand RSD 2016	Level 1	Level2	Level 3	Total Fair Value	Carrying value
Cash	-	75,128	-	75,128	75,128
Financial placements held with Banks	-	1,767,255	-	1,767,255	1,767,255
Receivables from finance lease activities	-	-	9,330,244	9,330,244	9,494,021
TOTAL ASSETS	**-**	**1,842,383**	**9,330,244**	**11,172,627**	**11,336,404**
Borrowings from banks and other financial institutions	-	-	10,571,267	10,571,267	10,906,564
TOTAL LIABILITIES AND EQUITY	**-**	**-**	**10,571,267**	**10,571,267**	**10,906,564**

Fair value in thousand RSD 2015	Level 1	Level 2	Level 3	Total fair value	Carrying value
Cash	-	1,240,864	-	1,240,864	1,240,864
Financial placements held with Banks	-	-	-	-	-
Receivables from finance lease receivables	-	-	6,721,440	6,721,440	6,793,808
TOTAL ASSETS	**-**	**1,240,864**	**6,721,440**	**7,962,304**	**8,034,672**

31. RISK MANAGEMENT (Continued)

31.5. Fair Value of Financial Assets and Liabilities (Continued)

Borrowings from banks and other financial institutions	-	-	7,121,857	7,121,857	7,325,543
TOTAL LIABILITIES AND EQUITY	**-**	**-**	**7,121,857**	**7,121,857**	**7,325,543**

The fair values of cash and financial investments in banks is equal to the carrying value due to a short-term receivables, which are granted at interest rates which correspond to market conditions.

The fair value of placements of financial leasing and fair value of borrowings is calculated by applying the technique of discounting future cash flows using the market yield curve, taking into account the maturity and market interest rates.

32. CAPITAL MANAGEMENT

The Company's primary goal regarding capital management is to ensure that the Company maintains strong credit rating and sound equity ratio in order to support the business activities and the maximization of the value of equity.

The Company manages its capital structure and adjusts it according to changes in economic conditions. In order to maintain and/or adjust the equity structure, the Company can return capital or increase stakes.

In accordance with the Law on Financial Leasing („Official Gazette of RS". no. 55/2003, 61/2005, 31/2011 and 99/2011), for the performance of finance lease transactions the object of which is a movable asset, the pecuniary portion of the initial capital of the Company cannot be lower than the dinar equivalent of EUR 500 thousand at the official middle exchange rate of the National Bank of Serbia as at the payment date. For the performance of finance lease transactions the object of which is an immovable asset, the pecuniary portion of the initial capital of the lessor cannot be lower than the dinar equivalent of EUR 5,000,000 at the official middle exchange rate as at the payment date. The Company has met threshold of EUR 5,000,000 of the initial capital of the lessor and financed immovable assets under finance lease agreements during 2016 and 2015.

In its business operations, the lessor is obliged to ensure that the pecuniary portion of the initial capital is always in an amount that is not lower than the amounts specified in the above paragraph, according to the official middle exchange rate as of the calculation day, depending on the leased assets.

As at 31 December 2016 the Company's stake capital amounts to RSD 960,374 thousand (31 December 2015: RSD 960,374 thousand) and is significantly above the prescribed minimum. The calculation of capital adequacy made for the purposes of reporting to the Intesa Sanpaolo Group also shows that the equity is significantly above the expected minimum.

The Board of Director made a decision on 30 December 2016 to distribute profit and interim profit to the parent company in the amount of 789,387 thousand, following the strategy of stockholders dividends payment of Intesa Sanpaolo Group. Given the size of the base capital of the Company, this payment does not affect the fulfillment of the capital requirement.

32. CAPITAL MANAGEMENT (Continued)

In the tax balance, and according to the regulations for preventing thin capitalization there are no unrecognized interest expenses to related parties due to the amount of regulatory capital.

33. INSURANCE OF LEASED ASSETS

Considering the risk which the Company is exposed to, the Company pays special attention to insurance of leased assets. Therefore, the Company cooperates with insurance companies.

In accordance with the amendments to the Insurance Act ("RS Official Gazette". no. 55/2004, 70/2004 - ispr., 61/2005, 61/2005 – law, 85/2005 – law, 101/2007, 63/2009 - decision US, 107/2009, 99/2011, 119/2012, 116/2013 and 139/2014 - other law) which makes it possible for leasing companies to engage in insurance agency activities, the Company has prepared organizational changes, adopted internal documents and implemented steps to obtain a license from the NBS for insurance agency activities.

Insurance representation is a part of global practices in leasing Companies, while on our market this has been made possible by amendments to the Insurance Act in 2015. Recognizing the need to reduce the level of risk for the client and for the leasing Company through insurance of the leasing asset of certain risk and ensuring adequate coverage, Intesa Leasing Company introduced a service of representation in insurance in 2016 after obtaining consent of the National Bank of Serbia (NBS) and signed a contract with seven insurance companies. Trough providing policies, customers are provided with additional benefits by enabling the best insurance conditions and comparable offers of all insurance companies that ILB cooperates with, the financing of insurance premiums in monthly instalments at a price of one-time payment, as well as through the help in the collection of claim and giving advice on volume of insurance and insurance coverage. The main types of insurance that Intesa Leasing offers are car insurance, which accounts for almost 80% of the portfolio, and property insurance, and the level of premiums portfolio is increased by 51.3% in 2016 when compared to the previous year.

34. EXTERNAL REGULATORS CONTROL

During 2016 the Company was not subject of any supervisions by the Tax Administration. During 2016 the Company was not subject to any supervisions by the National Bank of Serbia.

35. RECONCILIATION OF RECEIVABLES AND PAYABLES

In accordance with Article 18 of the Accounting Law, the Company performed the reconciliation procedure of receivables and payables with its debtors and creditors with the balance as of 31 December 2016 and it maintains credible documentation on the process.

Total number of reconciled finance lease contracts is 577 and respective amount of receivables from finance lease activities is RSD 4,167,647 thousand. There were no unreconciled receivables from operating lease activities.

Based on the exchanged confirmations (IOS forms), there are no materially significant unreconciled receivables and payables at the reporting date.

35. RECONCILIATION OF RECEIVABLES AND PAYABLES (Continued)

Besides reconciliation on the date of financial statements, the Company has been practicing continuous reconciliation with its clients during the fiscal year.

At 31 December 2016 the Company reconciled all liabilities with creditors.

36. CASH AND CASH EQUIVALENTS

For the purpose of preparing the Cash Flow Statement, the position Cash and cash equivalents has the following structure:

	2016	2015
Current accounts in RSD	75,128	1,240,864
Foreign currency accounts	1,767,255	-
Balance as at 31 December	**1,842,383**	**1,240,864**

37. SUBSEQUENT EVENTS

In January 2017 The Company repaid short-term revolving loan with currency clause of Banca Intesa AD Beograd in the amount of RSD 1,749,959 thousand, by selling foreign currency from foreign currency account (Note 23).

There were no other significant events after the reporting period which would require adjustments or disclosures in the notes and financial statement of the Company for 2016.

Belgrade 14 February 2017

Report prepared by:
Predrag Topalović

Legal representative:
Nebojša Janićijević

ANNUAL REPORT ON BUSINESS ACTIVITIES FOR 2016

INTESA LEASING D.O.O BEOGRAD

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1. BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE

1.1. Business activities

The leasing company "Intesa Leasing" d.o.o. Beograd (here in after: "the Company") was established based on the decision of the Commercial Court on 3 September 2003, (formerly: "Delta Leasing"). The Company was reregistered in the Companies Register with the Serbian Business Registers Agency on 25 July 2005 based on the Decision no. 82785/2005.

The Company operates in financial leasing business in accordance with the Law on Financial Leasing ("RS Official Gazette", no. 55/2003, 61/2005, 31/2011 and 99/2011). The Company's industry code set by the appropriate authority is 6491.

The Company finances: equipment, real estate, passenger and commercial vehicles. Selling channels are: direct selling channel (Intesa Leasing d.o.o. Beograd) and Banca Intesa a.d. Beograd selling channel.

From June 2016, the Company operates as an insurance representative.

In accordance with the criteria of the Accounting Act (Official Gazette of the Republic of Serbia 62/2013) the Company is classified as large legal entity.

From December 19, 2011, Banca Intesa ad Belgrade has become the 100 % owner of the shares of Intesa Leasing doo Beograd and has a leading role in managing the leasing company.

The Company's headquarters are in Belgrade, no. 54, Cara Uroša Street.

The tax identification number of the Company is 103023875. The Company's registration number is 17492713

From 2009 up to present moment, the Company has achieved:

- Steady and prudent growth in terms of portfolio, total assets and new production;

- Significant improvement of assets and portfolio quality;

- Collection process has been significantly improved and recently fully automated;

- Increase in profitability;

1.2. Organizational structure

The Internal organization rulebook of Intesa Leasing d.o.o. Beograd, as the basic internal act, defines general and specific organization parts within internal structure of the Company where leasing activities are being performed, management levels, review of main responsibilities by organizational parts and other issues related to internal organization.

The Company is comprised of:

- Departments,

- Offices,

- Units and

- Teams

Managing bodies of Intesa Leasing d.o.o Beograd are:

Shareholder's Assembly, there is one representative of Banca Intesa a.d. Beograd,

Board of Directors of the Company: includes the President and four members of the Board of Directors from Banca Intesa a.d. Beograd.

Executive Board of the Company (Top management): President and two members of the Executive Board of the Company. According to the Law, the Company is being represented by the President of the Executive Board. Under the authority of the members of the Executive Board are Product Management and Sales Department and Finance, Planning and Operation Department.

Other managing staff of the Company comprise:

Middle management: Directors of Offices

Line management: Heads of Units

Managing centers of the Company are organizational parts which are responsible directly to the President of the Executive Board and which in their fields provide support to the President of the Executive Board in the process of managing the Company, specifically: Legal and General Affairs Office and Office for support in credit analyses process.

Independent organizational parts:

Product Management and Sales Department is under the responsibility of one of the members of the Executive Board of the Company. This Department comprises five Units which manage specific sales segments and Regional sales network which comprises two regional centers: Belgrade and Novi Sad.

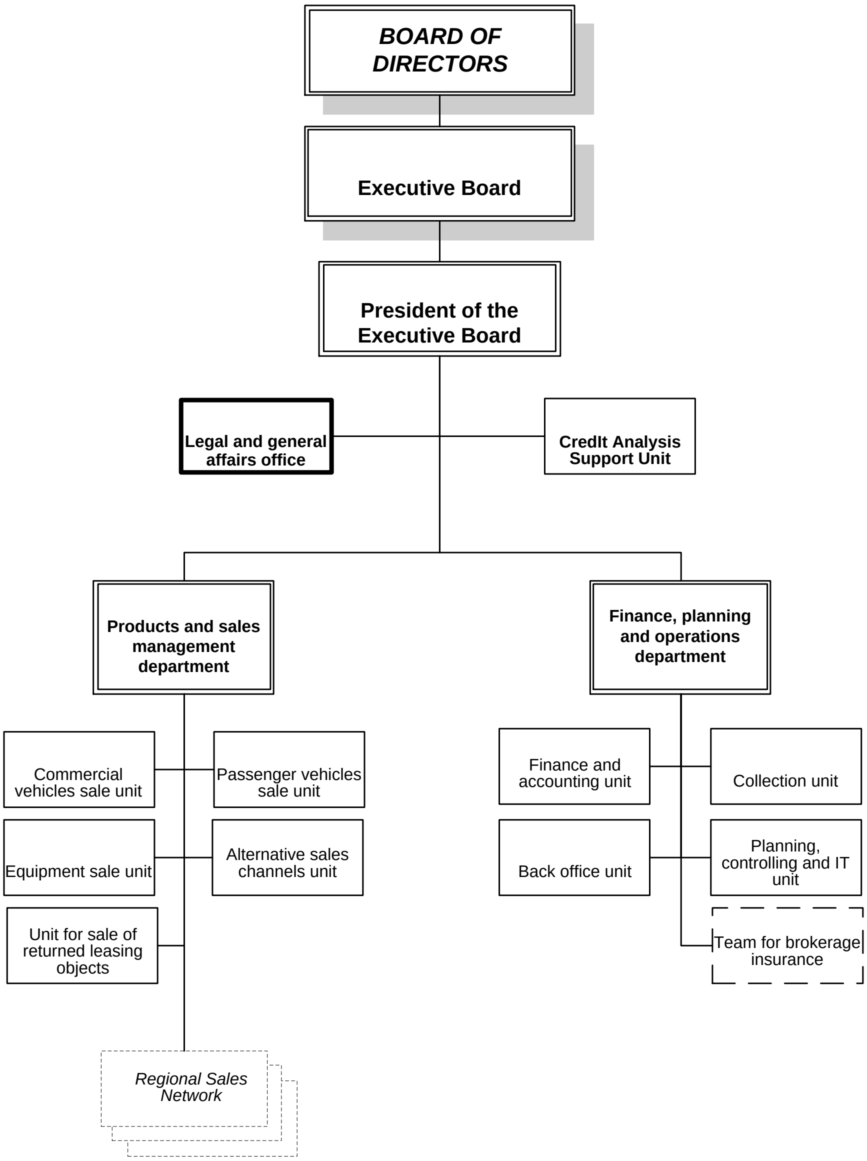
The Regional center is managed by the Regional Manager, who is answers to the Head of Product Management and Sales Department.

1.2. Organizational Structure – continued

The responsibilities of the Director of the department of finance, planning and operations, who is also a member of executive board, include the following activities: planning, control and IT, finance and operations, debt collection, business support operations and insurance operations.

For the purpose of conducting insurance agency activities, in accordance with the internal establishment of job positions within the organizational structure, the Company formed a team for the insurance business.

Figure 1. Organizational chart of Intesa Leasing d.o.o. Beograd



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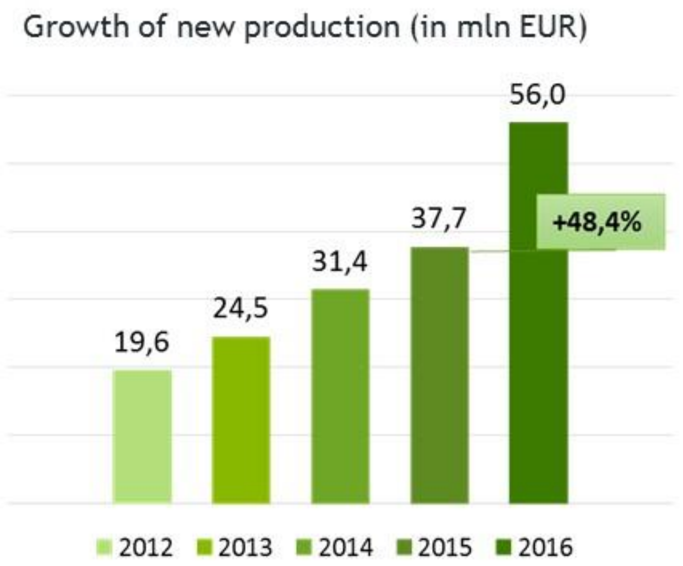
2. COMPANY'S OPERATIONS

2.1. Commercial activities

Since the beginning of its operations, Intesa Leasing d.o.o. Beograd recorded the highest level of new placements in 2016. The total funded value of 1,419 new leasing contracts in 2016 amounted to EUR 56 million.

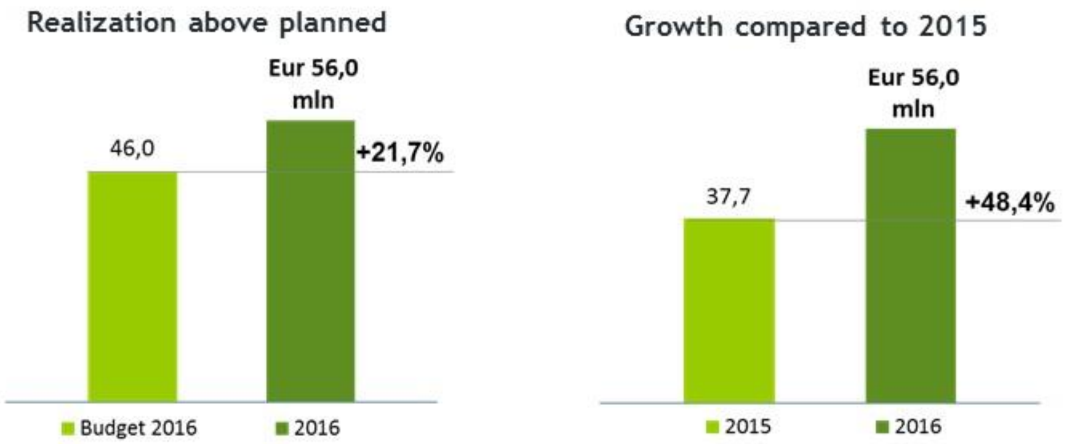
During the period from 2012 to 2016 the Company recorded growth in sales results.

Figure 2. Financed value of new placements by years (in millions EUR):



Comparing to the previous year, the Company recorded new placements growth rate of 48.4% (EUR 18.25 million). Financed value of placements in 2016 amounted to EUR 56 million, which is 21.7% (EUR 9.98 million) above planned values for 2016 (EUR 46 million).

Figure 3. Comparison of the realization of new placements according to the plan for 2016 and 2015 (in thousands of EUR)



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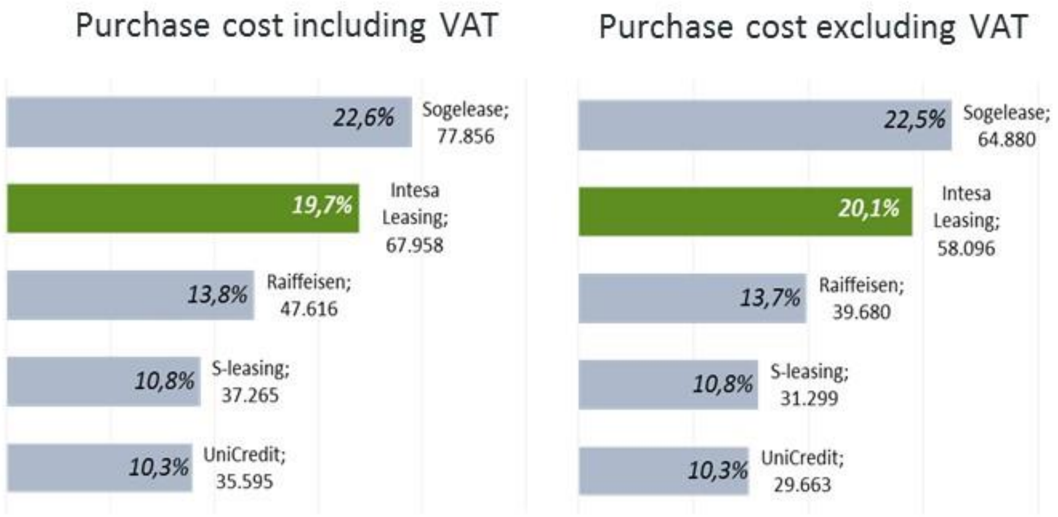
2.2. Market share

According to the data of *the Association of Leasing Companies in Serbia (ALCS)* for 4th quarter of 2016, Intesa Leasing d.o.o. Beograd holds second place in terms of indicators of new placements: purchased value without VAT with market share of 20.1% and financed value with market share of 20.6%. Official ALCS data differs from internal data because the statistics of ALCS take into account outsourced contracts as a new production.

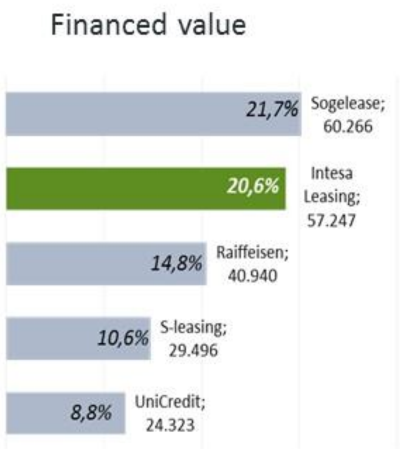
Following graphs show market share of five biggest leasing companies at the end of 2016 according to indicators of new production: purchased value with VAT, purchased value without VAT and financed value. Values are shown in thousand EUR.

Figure 4. Market share of five largest leasing companies according to the indicators of the new production: purchase cost including VAT, and purchase value without VAT (in thousands of EUR)



According to the indicator Financed value the Company occupied second place with a share of 20.64% in the total realization of new placements on leasing market in 2016. Total value of new placements on leasing market for 2016 was EUR 277.43 million (2015: EUR 242.36 million), which represents growth of 14.5% (EUR 35 million).

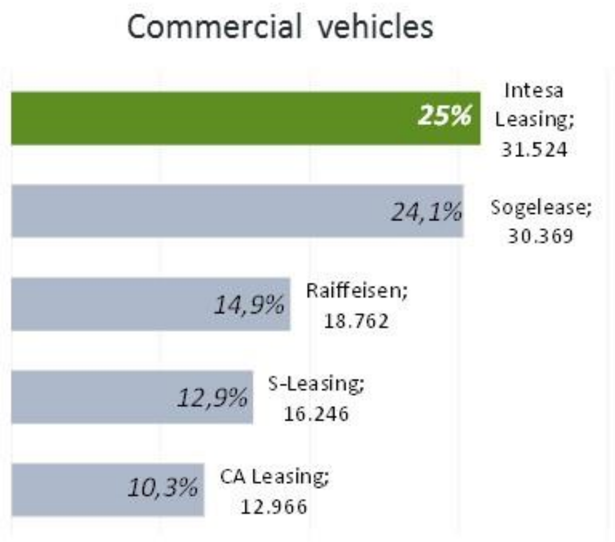
Figure 4: Market share of five largest leasing companies according to indicator of financed value of new receivables (in thousand EUR)

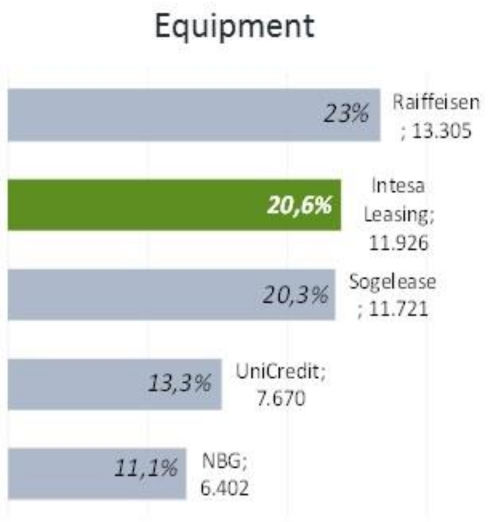


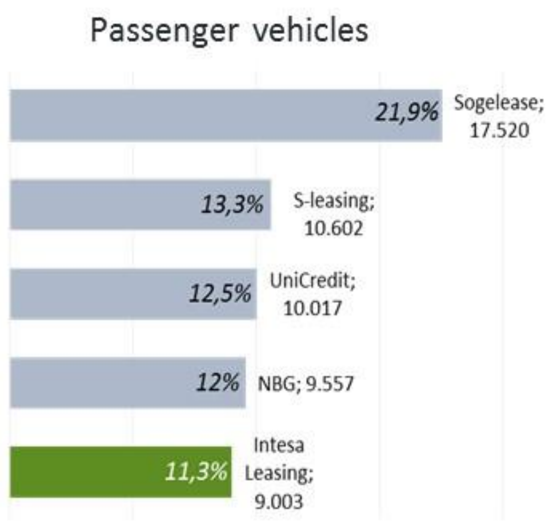
2.2. Market share (Continued)

In 2016, the Company occupied the first place in commercial vehicle segment and the second place in the equipment segment. In the passenger car segment the Company shifted from 6th to 5th place in the last quarter of 2016.

The following graphs show market share of five largest leasing companies at the end of 2016, according to the criteria of new production by type of leasing products (in thousands of EUR).





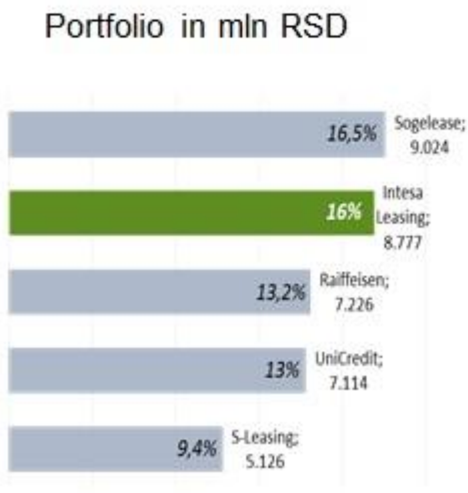


The realized average contracted interest rates on new loans in EUR amounted to 4.11% in 2016.

The new Regional center Novi Sad contributed to high level of placements, with share in total financed value amounted 31,3% (EUR 17.55 million) during 2016.

2.2. Market share (Continued)

According to the data of the National Bank of Serbia for *Q3 of 2016* Intesa Leasing d.o.o Beograd occupied first place regarding the level of total assets with share of 16.1%. Regarding the portfolio level the Company occupied second place with share of 16%.



Throughout the years the Company has been constantly increasing its market share on the leasing market, having at the end of 2016 3.8 times bigger market share than in the first years of doing business

Figure 5. Market share Intesa Leasing d.o.o according to the amount of balance sheet assets for Q3 2016 (billion RSD)

The leasing market at the end of Q3 2016 was extremely profitable. There was a positive result of the entire leasing market and growth indicators ROA (Q3 2016: 2.1%; 2015: 0.64%) and ROE (Q3 2016: 15.59%; 2015: 5.39%). Result before taxes at the end of Q3 2016 amounted to RSD 970.9 million (2015: RSD 400.4 million).

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2.3. Financial position

At the end of 2016 the Company's total on-balance assets amounted to RSD 12,802,700 thousand. Comparing to previous year, when amounted RSD 9,363,235 thousand and increase in balance sheet assets of 36.7% (RSD 3,439,465 thousand) was achieved.

Realized average interest rate on assets amounted to 4.24%, while average interest rate on liabilities amounted to 1.68%.

At the end of 2016, leasing placements amounted to RSD 9,494,021 thousand and are above the previous year's level of placements (RSD 6,793,808 thousand) for 39.7% (RSD 2,700,213 thousand).

Except for the equipment segment, all segments of placements by type of equipment are above last year's levels and values planned for 2016. In 2017, the new branch - Regional Center Novi Sad is expected to continue to strengthen and grow, especially in the segment of agricultural equipment which could improve balance of placements in this segment.

The Company has significantly improved the quality of portfolio over the years. In 2016, the level of NPL was reduced to historically lowest level since the start of business. Indicators of the quality of portfolio at the end of 2016 are as follows:

- Share of NPLs in total leasing exposure amounted to 3.05%;

- Provision coverage ratio amounted to 3.86%;

- NPLs provision coverage ratio amounted to 81.43%.

Figure 6. Share of bad placements (NPL-a) in total value of placements (gross long-term receivables) presented in million RSD

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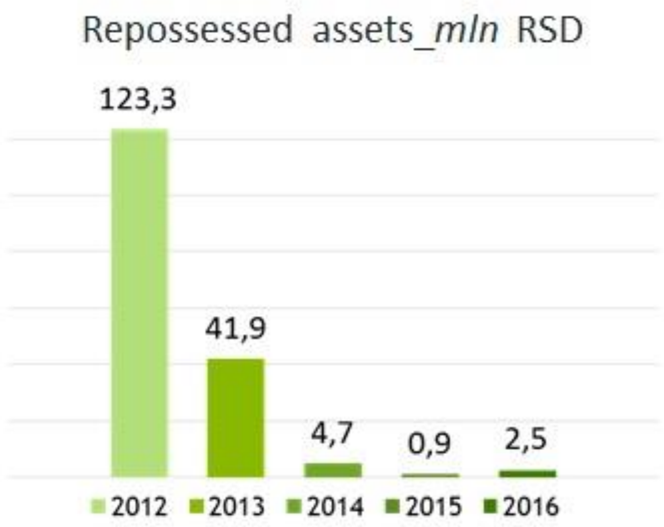
2.3. Financial position (Continued)

The quality of portfolio management is also evident through a significant decrease in repossessed lease assets. At the end of 2016, net value of repossessed lease assets amounted to RSD 2.49 million thousand and comparing to 2012 (RSD 123.3 million) its value decreased for 97.9%.



According to data from the Credit bureau as at 31 December 2016, the Company's share in the total amount of placements that are overdue more than 90 days amounted to 2.7%, and is significantly below the value for the leasing market of 17.6%.

Placements overdue more than 90 days	2015	2016
Leasing market	23.5%	17.6%
Intesa Leasing d.o.o. Beograd	4.5%	2.7%

2.4. Result of business activities

In addition the growth of selling results and improve in the quality of the portfolio, the Company record after tax growth results from year to year.

As at the end of 2016, the Company generated the biggest profit after tax amounted RSD 137,071 thousand, which is above last year's level of profit (RSD 129,424 thousand) for 5.9% (RSD 7,647 thousand).

Due to business growth and number of realized new contracts, the Company had growth of operating costs, shown by Cost/Income ratio. This ratio amounted for 55.1% for 2016, compared to 46.9% in 2015.

As at 31 December 2016 the Company had 35 employees, which represents an increase of 5 comparing to the end of 2015 (31 employees).

2.5. Internal Audit

During 2016 one internal audit was conducted, in accordance with the audit plan. All recommendations of Internal Audit were successfully implemented.

2.6. Tax Control

The total refunded amount of tax in 2016 was RSD 310 million, with no additional tax control by Tax Administration of Serbia.

3. PROTECTION OF THE ENVIRONMENT

The Procedure for managing socio-environmental risk specifies risk monitoring in the field of protection of the environment.

Environmental risk represents the possibility that activities of the Company directly or indirectly threaten the environment.

The Procedure is being applied to the management of environmental risks related to the clients' (legal entities or entrepreneurs) activities financed by the Company, when approving new finance leasing contracts.

If the request for financing relates to financing the activities from the List of activities that the Company does not support, the Company rejects such financing request.

4. SUBSEQUENT EVENTS

Given that financing of several major investments was rescheduled in January 2017 for a later period, the Company converted cash from its foreign currency account and used it to returned part of short-term revolving loan granted by Banca Intesa AD Beograd in the amount of RSD 1,740,959 thousand.

5. PLANNED FUTURE DEVELOPMENT

Intesa Leasing d.o.o Beograd has adopted Business plan for period 2015 - 2017 which emphasizes following strategic directions and development goals:

- To be the most successful leasing company operating in the Serbian leasing market which operate in profitable and sustainable way;
- To increase financing of small and medium enterprises during the period 2015 - 2017;
- Further development of real estate financing, with focus on the best locations and best clients;
- Development of new product categories: in the forthcoming period there will be the possibility to finance renewable energy sources, which is also supported by international institutions;
- More favorable credit lines and achieving lower financing costs leading to better position regarding the terms of new placements approval and making the possibility for further improvement of the portfolio quality;
- Obtaining new credit line from international financial institutions and funds, as important step for realization of strategic goals;
- More successful business operations and decrease of cost to income ratio;
- Increase in operating efficiency and improvement and automatisation of business processes.

6. RESEARCH AND DEVELOPMENT ACTIVITIES

The Company's development activities are primarily focused on improvement of business processes and further development of Business Process Management.

Within BPM module following tools have been developed:

- **APM (Automated bills of exchange activation process)** is a crucial business process for active involvement of sales staff in the collection process. The results of process are 4 automated reports on a daily basis containing all relevant data about the clients and enabling portfolio management in the most efficient and easiest way on a daily basis. For joint clients of the Company and Banca Intesa a.d. Beograd, the process creates automatic reports also for colleagues from the bank responsible for the clients enabling coordinated collection action. Early warning system consists of the following steps:

First warning to client: 15th day by registered mail

Second warning: 22nd day

Third warning: 30th day by registered mail with return receipt.

After this the APM process takes over the client and he on the 45-th day he/she became a candidate, while on the 50-th day bill of exchange is submitted for collection.

- **Monitoring and collateral revision process:** this process filters leasing contracts/clients with higher risk (based on ILB portfolio history – S&LB transactions, equipment financing and other indicators) and creating tasks for responsible salesman on a regular basis (two times per year) to perform on site monitoring of clients' activities and leased assets. Monitoring reports and photos of leased assets have been up-loaded directly to the process. This process also generates automatic reminders/tasks for collaterals re-appraisal. Appraisal reports are also uploaded directly to the business process.

6. RESEARCH AND DEVELOPMENT ACTIVITIES (Continued)

- Process for support **organization of AQC** (Asset quality committee) **meetings and monitoring of collection strategies**. Agenda of AQC meeting is generated and distributed automatically based on delays and other set criteria together with automatically prepared materials for every client on agenda. Members of AQC of the Company analyze materials (together with monitoring reports and photos of leased assets for clients involved in BPM process monitoring) and strategy proposals, defining final strategy which is directly input into the process. Monitoring of final strategies fulfilment and deadlines is also supported by this business process.

- Contract termination, repossession and remarketing of leasing assets - this BPM process supports hard collection phase from contract termination to the final sales of repossessed assets.

- **Legal process** – it is new BPM process which has an aim to support last phases of contract life cycle and to provide more efficient legal actions.

- **AML process**- enables automated definition of risk category for each client. New version of AML process is connected with BPM process and supports approval of transaction and execution of contract. When granting AML, scoring is done automatically and requires to complete the transaction.

Process of insurance - Through the process of Insurance, the offers for insurance of the leased assets are collected. Through the process, the customers will be sent the comparative summary of offers. When a client chooses one of the options, queries will be sent to the selected insurer for delivering the policy. The policy is delivered in PDF - and all essential elements of policies are entered in the system NOVA and are linked to a particular leasing contract. At the same time, the policy is archived in electronic archive and in storage records. When a client signs the policy, the signed documents are scanned and archived through in electronic documents and discharged in the book of storage records after delivering it to insurance.

The new model supported by BPM process has contributed to increasing competition and the additional efforts of insurance companies, which leads to better quality of service for customers.

- BPM Process – depreciation curves: depreciation curves are generated automatically for each leasing transaction which is an important indicator for the decision of the Credit Committee. Comparison of depreciation curves for leasing items with the repayment schedule is an indicator of whether the proposed level of participation is sufficient to cover ILB's position during the financing period. Potential GEP is calculated and is the indicator for the members of the Credit Committee to increase the % of participation.

- BPM Process – In 2016 the new version of the BPM process was additionally improved. Improvements include automatic generation of decisions and preparation of contract documents based on the decision of the Credit Committee, which allows easier completion of documents using bas codes. Additional features include:

- Open PDF file to import data about the leasing asset to be financed on the day of contract signing (price, registration or chassis number, year of production...).
- New document format that allows barcoding (all documents already have bar codes, integration between MFPs and e-archive has been completed) which will enable more efficient completion of documents.

6. RESEARCH AND DEVELOPMENT ACTIVITIES (Continued)

Next steps in the automation of business processes:

- Digital signature: Confirmation by the IT support Gemikro doo Beograd of the possibilities of development of technological standards defined by Law, which covers the area of electronic signatures and documents (Law on Electronic Signature and Electronic Documents Law and the Rulebook on technical-technological procedures for creating qualified electronic signatures and criteria to be met for the formation of qualified electronic signatures).

The first step is creation of functional connections between parts of BPM processes involving decision-making (e.g. the decision of the Credit Committee, AQC decisions, etc.), and applications that enables electronic signing. The aim is that each authorization through the BPM process initiates electronic signature.

The second step will significantly improve the efficiency of realization of the contractual documentation and archiving. Electronic signature will allow activation of electronic signature on entire contractual documentation, based on the decision of the Credit Committee (automatically generated - a project that was completed in 2016) and verification by the Back office (also part of the BPM process).

- Scoring: Automatic scoring module includes integration with external web services (Bisnode) and Credit Bureau. Implementation is planned for 2017. This further reduces TTY (yes this time) and assessment based on all available information for assets of lesser value (passenger cars and light commercial vehicles up to EUR 25 thousand) and other announced products.

An initiative to change the limit when approving, coordinated by Department of Credit Management in combination with scoring module, will be crucial for further growth of new placements in the years to come.

- FTP calculation -The Plan is for FTP model to be implemented in NOVA system and to be adapted to the rules of Banca Intesa a.d. Beograd and the rules of ISP Group.

Start of development is expected in Q1 2017. The final version is expected to be done in first half of the year.

FTP should support the internal decision-making. Internal rate will be used as an indicator of the profitability of transaction and allow the existence of so-called back to back calculations, which allows profitability monitoring in all business segments.

7. OWN STAKES PURCHASE

The Company did not purchase its own stakes during 2016.

8. BRANCH EXISTENCE

The Company had one registered branch in 2016 in Novi Sad.

9. FINANCIAL INSTRUMENTS

During 2016, the Company used the Securities and dinar T-bills of the Republic of Serbia with maturities up to one year as well as Government bonds with a maturity of three years. The market value of these financial instruments on balance sheet date amounted to RSD 1,008,076 thousand.

10. FINANCIAL RISK MANAGEMENT

Risk is an integral part of business operations of the Company and it is impossible to eliminate it completely. The Company manages risks in a way to reduce them to limits acceptable for its stakeholders: equity owners, lessor, lessee, regulator body. Risk management is a process of continuous identification, estimation, measurement, monitoring and controlling the exposure of the Company to the risks. Important part of the risk management process is reporting and risk mitigation.

Adequate system of risk management is important element in achieving stability of the Company and the profitability of its operations.

By nature of its activities, the Company is exposed to the following most significant types of risks:

- Credit risk,

- Liquidity risk,

- Market risk (interest rate risk, FX rate risk and other market risks), and

- Operating risk.

The Management is responsible for establishing adequate risk management system and its consistent implementation in practice. The Management defines procedures for identification, measurement and estimation of risks and it is responsible for establishing a unique system for risk management in the Company and for monitoring that system.

The Management is responsible for identification, estimation and measurement of risks to which the Company is exposed in its operations and it applies risk management principles approved by the Board of Directors of the Company.

The Board of Directors of the Company analyses and adopts proposals of policies and procedures related to risk management and internal control system which are submitted to the Board of Directors to be discussed and adopted. Also, the Board analyses and supervises the implementation and adequate realization of adopted risk management policies and procedures and if necessary, suggests manners for their improvement.

The Company has developed a comprehensive risk management system by introducing policies and procedures, as well as by establishing limits for risk levels acceptable to the Company.

Specific risks, such as foreign exchange rate risk, the Company monitors on daily basis, while for other risks semi-annual reports are being prepared.

11. RISK EXPOSURE

A) **Credit risk** is the risk that a contractual party will not be able to fulfil the related contractual obligation, causing financial loss for the other party. Through its internal regulations and procedures, the Company implements an adequate system of credit risk management and reduces credit risk to an acceptable level.

The indicator of credit risk can be represented by the following table portfolio quality expressed as the value of gross placements, or receivables based on financial leasing without other receivables based on financial leasing, pre-accrued interest and without any advance collected handling charges (all amounts are presented in thousands of RSD):

	2016	Share in total net placements	2015	Share in total net placements
Performing	9,474,790	99.41%	6,647,379	97.97%
Past due	22,907	0.24%	100,423	1.47%
Unlikely to pay	6,280	0.07%	115,565	0.23%
Doubtful	26,899	0.28%	22,247	0.33%
Total	**9,530,876**	**100%**	**6,823,269**	**100%**

As we can see, for both years under review, the share of NPLs is at a low level, amounting to 0.35% and 0.56% for 2016 and 2015 respectively. The Company successfully decreased NPLs share in 2016 comparing to previous year due to continuous monitoring of credit risk. Credit risk has the satisfactory level regarding the prescribed limits.

B) **Liquidity risk** is the risk that the Company will not be able to settle down its due liabilities. Liquidity of the Company depends primarily on maturity matching of assets and liabilities of the Company, i.e. on asset inflows and outflows matching.

Liquidity risk can be presented through the following table for gross amounts of assets and liabilities and equity:

	2016			2015		
	Assets	Liabilities and equity	Cumulative gap	Assets	Liabilities and equity	Cumulative gap
Gross exposure to 30 days	3,543,299	975,234	2,568,065	1,928,897	1,055,057	873,840
Gross exposure of 1 to 3 months	618,143	106,126	3,080,082	652,567	314,512	1,211,895
Gross exposure of 3 to 6 months	735,239	3,465,433	349,888	546,583	509,478	1,249,000
Gross exposure of 6 to 12 months	1,365,753	1,101,226	614,415	1,470,407	1,416,905	1,302,502
Gross exposure of 12 to 18 months	1,171,339	781,727	1,004,027	842,094	597,532	1,547,064
Gross exposure of 18 months to 3 years	5,123,360	4,531,453	1,595,934	4,056,192	3,069,814	2,533,442
Gross exposure over 5 years	256,185	883,513	968,606	248,199	810,841	1,970,800
Gross amount without a defined maturity	508,306	957,988	518,924	290,100	1,589,096	671,804
Gross exposure - total	**13,321,624**	**12,802,700**	**518,924**	**10,035,039**	**9,363,235**	**671,804**

11. RISK EXPOSURE (Continued)

As the table presents, the Company has high degree liquidity matching, i.e. it is able to fulfil its due liabilities in all periods of time.

C) **Interest rate** is the risk of the occurrence of adverse effects on the Company's financial result and equity due to changes in market interest rates.

The Company is exposed to interest rate risk, which affects its financial position and cash flows through changes in the level of market interest rates, and which is caused by the mismatch of maturity of assets and liabilities with fixed interest rates.

The exposure to interest rate risk depends on the ratio of the interest-sensible assets and liabilities of the Company. Therefore, the Company controls the interest rate risk by monitoring the ratio of the interest-bearing assets, i.e., liabilities and the percentage thereof in the total asset, i.e., liabilities.

The calculated reprising gap indicator shows that in the case of change of interest rate by 1.00% effect on revenues, i.e. expenses of the Company would be RSD 18,879 thousand, which is within the limit prescribed by the Procedure for interest rate risk management.

D) **Foreign currency risk** is the risk of appearing negative effects on financial result and equity of the Company due to change in foreign exchange rates.

The foreign currency risk protection principle is to achieve and maintain foreign currency assets at least in the amount equal to foreign currency liabilities. This ratio is also reconciled from the aspects of maturities of foreign currency receivables and foreign currency liabilities.

As at 31 December 2016 the Company had short position in the amount of RSD 27,802 thousand, which is 2.82 % of the Company's equity. Foreign exchange risk is within the determined limit of EUR 300,000 converted by average exchange rate of NBS on the reporting date.

E) **Operational risk** is the risk of adverse effects on the Company's financial result and equity due to failures in performance of operating activities, human mistakes, system errors and influence of external factors.

The function of operational risk management process is to identify, assess, control and minimize the possibility of occurrence and effect of operational risks and net losses.

During 2016, the Company recorded two operational risk incidents, which effect on income statement was RSD 136 thousand, but based on recorded operational risks the Company passed on recommendations on how to avoid this risk in future operations.

11. RISK EXPOSURE (Continued)

General estimate of the Company's risk exposure for 2016 is that all risk indicators are within defined limits suggesting they are very efficient in managing the Company, as confirmed by overall results of the Company.

Belgrade, 14 February 2017

Report prepared by	Legal representative
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