KPMG d.o.o. Beograd
Kraljice Natalije 11
11000 Belgrade
Serbia

Telephone: +381 11 20 50 500
Fax: +381 11 20 50 550
E-mail: info@kpmg.rs
Internet: www.kpmg.rs

TRANSLATION

Independent Auditors' Report

TO THE OWNERS

INTESA LEASING D.O.O. BEOGRAD

We have audited the accompanying financial statements of Intesa Leasing d.o.o. Beograd ("the Company"), which comprises the balance sheet as at 31 December 2012, the income statement, 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 true and objective presentation of these financial statements in accordance with the applicable Law on Accounting and Auditing of the Republic of Serbia, applicable Financial Leasing Law and other relevant by-laws issued by National Bank 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 applicable Law on Accounting and Auditing of the Republic of Serbia and International Standards on Auditing. 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 true and objective 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.

Matični broj:17148656
PIB: 100058593
Račun: 265-1100310000190-61
KPMG d.o.o. Beograd je jednočlano društvo.

Opinion

In our opinion, the financial statements present truly and objectively, in all material respects, the financial position of the Company as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with the applicable Law on Accounting and Auditing of the Republic of Serbia, applicable Financial Leasing Law and other relevant by-laws issued by National Bank of Serbia.

Other Matter

The financial statements of the Company as at and for the year ended 31 December 2011 were audited by another auditor who expressed an unmodified opinion on those statements on 15 March 2012.

Belgrade, 18 March 2013

KPMG d.o.o. Beograd

(L.S.)

Dušan Tomić
Certified Auditor

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.

Belgrade, 20 March 2013

KPMG d.o.o. Beograd

(L.S.)

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

Dušan Tomić
Certified Auditor

INCOME STATEMENT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER

In thousands of RSD	Notes	2012	2011
INCOME AND EXPENSES FROM OPERATING ACTIVITIES			
Interest income from finance lease activities	5	389,956	335,425
Interest expenses from finance lease activities	5	(223,532)	(141,657)
Net Interest Income		**166,424**	**193,768**
Operating income from finance lease activities	6	58,089	82,896
Operating expenses from finance lease activities	7	(14,529)	(26,960)
Operating profit		**209,984**	**249,704**
OTHER INCOME AND EXPENSES			
Net interest income, foreign exchange gains and effects of foreign currency clause	8	123,175	120,205
Net gains on sale of intangible assets, property, plant, equipment and other assets	9	992	438
Net losses from changes in value from assets	10	(54,563)	(76,586)
Gains from sale		11	-
Operating expenses	11	(72,097)	(67,271)
Costs of salaries, benefits and other personal expenses	12	(73,091)	(70,038)
Depreciation and amortization expenses	13	(8,318)	(7,121)
Provisions	14	-	(249)
Other Income	15	31,631	43,828
Other expenses	16	(20,050)	(31,054)
		(72,310)	**(87,848)**
PROFIT BEFORE TAX		**137,674**	**161,856**
INCOME TAXES	17		
Current tax expense		(32,970)	(24,808)
Deferred tax income		11,280	213
PROFIT FOR THE PERIOD		**115,984**	**137,261**

Belgrade, 27 February 2013

Report prepared by:
Predrag Topalović

Legal representative:
Nebojša Janićijević

BALANCE SHEET FOR THE YEAR ENDED AS AT 31 DECEMBER

In thousands of RSD	Notes	2012	2011
ASSETS			
Non-current assets			
Intangible assets	18	13,344	14,388
Property, plant and equipment	19	10,814	11,195
Long-term receivables from finance lease activities	20	2,916,559	2,868,089
		2,940,717	**2,893,672**
Current assets			
Inventories	21	1,052	1,174
Finance lease assets repossessed in exchange for uncollectible receivables	21	123,316	140,835
Leased assets		13,670	110,225
Short-term receivables from finance leased activities	22	1,859,316	1,859,526
Other receivables from finance lease activities	23	3,162	30,358
Receivables from operating activities	24	9,240	6,059
Short-term financial placements	25	1,760,391	1,152,682
Cash and cash equivalents	26	83,712	378,737
Value added tax and accruals	27	69,904	99,555
		3,923,763	**3,779,151**
Deferred tax assets	17 (c)	**11,775**	**495**
TOTAL ASSETS		**6,876,255**	**6,673,318**
OFFBALANCE SHEET ASSETS	30	**1,221,461**	**528,962**

EQUITY AND LIABILITIES

EQUITY	28		
Unrealized losses on securities		(249)	-
Stake capital		960,374	960,374
Retained earnings		417,125	301,141
		1,377,250	**1,261,515**
LONG-TERM PROVISIONS AND LIABILITIES			
Long-terms provisions	29	140	332
Long-term borrowings in the country	30	493,537	848,420
Long-term borrowings from abroad	30	1,705,775	3,477,549
		2,199,452	**4,326,301**
CURRENT LIABILITIES			
Short-term borrowings	31	3,128,152	900,646
Interest and financing costs payable	32	3,539	5,407
Liabilities for salaries and other employee benefits		1,462	96
Other liabilities	33	47,177	54,381
Value added tax, liabilities from earnings, other public charges and accruals	34	86,253	100,164
Income tax payable		32,970	24,808
		3,299,553	**1,085,502**
TOTAL LIABILITIES AND EQUITY		**6,876,255**	**6,673,318**
OFFBALANCE SHEET ASSETS	30	**1,221,461**	**528,962**

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

In thousands of RSD	Stake capital	Retained earnings	Unrealized losses on securities	Total
Balance as of 1 January 2011	960,374	163,880	-	1,124,254
Profit for the period	-	137,261	-	137,261
Balance as of 31 December 2011	**960,374**	**301,141**	**-**	**1,261,515**
Balance as at 1 January 2012	960,374	301,141	-	1,261,515
Increase for the year	-	-	(249)	(249)
Profit for the period	-	115,984	-	115,984
Balance as at 31 December 2012	**960,374**	**417,125**	**(249)**	**1,377,250**

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CASH FLOW STATEMENT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER

In thousands of RSD	**2012**	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	**3,588,015**	**2,697,910**
Receipts from finance lease placements	2,792,051	2,130,455
Receipts and advances received from finance lease activities	633,703	393,622
Receipts from rent and sales and other advances received	27,777	42,429
Other receipts from operating activities	134,484	131,404
Cash payments from operating activities	**2,870,912**	**3,159,613**
Payment of liabilities and advance payments in respect of finance lease activities	2,577,224	2,824,071
Other payments and advances paid	73,172	83,000
Salaries, fringe benefits and other personal expenses paid	77,542	71,931
Income tax paid	27,519	42,138
Payments for other public charges	91,584	90,796
Other payments from operating activities	23,871	47,677
Net cash flows from operating activities	**717,103**	**(461,703)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	**109,269**	**103,607**
Proceeds from sale of intangible assets, property, plant and equipment and other assets	-	824
Interest received from investing activities	109,269	102,783
Cash payments from investing activities	**(534,361)**	**(45,905)**
Purchase of intangible assets, property, plant and equipment	-	(12,853)
Purchase of financial instruments	(199,979)	-
Other financial placements	(334,382)	(33,052)
Net cash flows from investing activities	**(425,092)**	**57,702**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflow from financing activities	**-**	**402,659**
Proceeds from long-term and short term borrowings (net inflow)	-	402,659
Cash payments from financing activities	**564,564**	**-**
Long-term and short-term credits and loans from finance lease (net outflows)	564,564	-
Net cash received/(paid) from financing activities	**(564,564)**	**402,659**
Net cash paid	**(272,553)**	**(1,342)**
Cash and cash equivalent balance at the beginning of period	**378,737**	**375,388**
Exchange rate gains on cash balance translation	**-**	**4,691**
Exchange rate losses on cash balance translation	**(22,472)**	**-**
Cash and cash equivalent balance at the end of period	**83,712**	**378,737**

T R A N S L A T I O N

INTESA LEASING d.o.o. BEOGRAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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.

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.

The Company operates in accordance with the requirements of the Law on Financial Leasing. The Company's industry code set by the appropriate authority is 6491.

The Company operates as a subsidiary of Banca Intesa a.d. Beograd, and, therefore, the majority stakeholder and founder consolidates the financial statements.

In accordance with the criteria set forth in the Accounting and Auditing Law ("RS Official Gazette", no. 46/2006, 111/2009 and 99/2011), the Company is classified as a large-sized legal entity.

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

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

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

As at 31 December 2012 the Company had 29 employees (31 December 2011: 28 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of the Financial Statements

The financial statements of the Company as of and for the year ended 31 December 2012 have been prepared in accordance with the accounting regulations prevailing in the Republic of Serbia, which are based on the Accounting and Auditing Law ("RS Official Gazette", no. 46/2006, 111/2009 and 99/2011), the Law on Financial Leasing ("RS Official Gazette", no. 55/2003, 61/2005, 31/2011 and 99/2011) and the relevant regulations issued by the National Bank of Serbia that are based on the aforementioned legislation.

Pursuant to the Accounting and Auditing Law, companies and entrepreneurs in the Republic of Serbia are obliged to prepare and present their financial statements in accordance with the relevant legal and professional regulations, which encompass the applicable Financial reporting and presentation framework ("Framework"), International Accounting Standards ("IAS") and International Financial Reporting Standards ("IFRS"), as well as Interpretations to standards ("IFRIC") which are an integral part of the standards.

Pursuant to the Resolution of the Republic of Serbia's Minister of Finance no. 401-00-380/2010-16 dated 25 October 2010 ("RS Official Gazette", no. 77/2010 and 95/2010), the translation of International Financial Reporting Standards, including International Accounting Standards and Interpretations to standards issued respectively by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") by 1 January 2009, which are in effect as at the date of preparation of the financial statements, has been provided for and published.

By the date of preparation of the accompanying financial statements not all amendments to existing standards, new and revised standards and IFRIC interpretations published by IASB and IFRIC, which are effective in the current reporting period and which are mandatory for the first time for the financial year beginning on 1 January 2012, have been officially translated by the Ministry of Finance of the Republic of Serbia.

New or amended IFRS and IFRIC interpretations issued subsequent to 1 January 2009 have not been applied in the preparation of the accompanying financial statements.

The accompanying financial statements have been prepared in the form prescribed by the Rules on the Content and Layout of Financial Statements Forms for Financial Lessors ("RS Official Gazette", no. 46/2010), which differs from the presentation and titles of certain general purpose financial statements and the presentation of certain items as required under Revised IAS 1 "Presentation of Financial Statements" and IAS 7 "Statement of Cash Flows". The application of the Revised IAS 1 is mandatory for the first time for the annual periods beginning on 1 January 2009.

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

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

Accordingly, the accompanying financial statements do not fully comply with IFRS, and therefore, they cannot be considered as financial statements prepared and presented in accordance with IFRS.

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 financial statements have been prepared under the historical cost convention, 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 that are not the functional currency are considered to be foreign currency transactions.

These financial statements were authorized for issue by the president of the Executive Committee and Board of Directors on 28 February 2013.

2.2. Comparative data

The comparative data represent audited annual financial statements of the Company for the year ended 31 December 2011.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Income and Expense Recognition

(a) Interest Income and Expense

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.

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

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

(b) Fee 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Income and Expense Recognition (Continued)

(c) Fee and Commission Expenses

Fees and commission expenses comprises bank charges for payment and settlement transactions and other banking services, and are recognized in the income statement when incurred.

(d) Other Expenses

Costs of materials, maintenance, repair and replacement costs are recognized in the income statement when incurred.

3.2. Foreign Currency Translation

Balance sheet and income statement items stated in the financial statements are valued by using currency of the primary economic environment (functional currency). As disclosed in Note 2.1, the accompanying 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 Income Statement, as income/expenses from foreign exchange gains/losses within financial income/expenses (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:

Currency	31 December 2012	31 December 2011
CHF	94.1922	85.9121
EUR	113.7183	104.6409

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Foreign currency translation (Continued)

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 rates for the contracted foreign currency clause - EUR		Exchange rates for the contracted foreign currency clause - CHF	
Exchange rate description	**31 December 2012**	**31 December 2011**	**31 December 2012**	**31 December 2011**
Selling exchange rate for foreign currencies of Banca Intesa	116.5613	107.2569	97.0180	88.4895
Selling exchange rate for cash of Banca Intesa	115.9927	107.2569	97.0180	88.4895
Middle exchange rate of NBS	113.7183	104.6409	94.1922	85.9121
Selling exchange rate for foreign currencies of NBS	114.0595	104.9548	-	-
Selling exchange rate for cash of NBS	114.5143	105.3734	-	-

Positive and negative effects of translating the fee for the use of a leased asset denominated in a foreign currency into RSD are recorded in the income statement as foreign exchange gains or losses.

Receivables and liabilities related to host contracts with embedded derivatives, i.e. 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 in the income statement, as gains/losses from changes in value of assets.

During 2012, the Company has the contractual exchange rates for the translation of long-term receivables from finance lease activities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Intangible Assets

Intangible assets acquired separately 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, 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 of intangible assets is 20%.

Amortization charge is recognized as an expense in the period in which it was incurred (Note 13).

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 income statement in the moment of derecognition.

3.4. Property, Plant and Equipment

Property, plant and equipment of the Company as at 31 December 2012 comprise equipment.

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Cost includes purchase price and all directly attributable costs of bringing the asset to the appropriate working condition 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 income statement of 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 income statement at the moment of derecognition.

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 13).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Property, Plant and Equipment (Continued)

Annual depreciation rates in use are as follows:

Type of Equipment	Useful life (years)	Depreciation rate
Buildings	40	2.50%
Computer equipment	5	20.0%
Mobile Phones	3.33	30.0%
Passenger vehicles	4	25.0%
Office furniture	8	12.5%
Photocopying equipment	7	14.3%
Calculating machines	6.06	16.5%
Cooling devices	6.06	16.5%
Refrigerators, ovens and similar appliances	8	12.5%
Cleaning equipment	5	20.0%
TV, radio and video equipment	8	12.5%
Telephone exchanges and fixed phones	14.28	7.0%
Cellular telephones	8	12.5%
Canvas (carpets, blinds, curtains, carpet, etc.)	8	12.5%
Illuminated electrical advertisements	9.09	11.0%
Other assets	8	12.5%

The estimated useful life of assets is reviewed periodically and adjusted if necessary at each balance sheet date. Changes in expected useful lives of assets are accounted for as changes in accounting estimates.

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 and 119/2012) 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 17(c)).

3.5. 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 income statement as required by IAS 36 "Impairment of Assets".

Impaired non-financial assets (other than goodwill) are reviewed for possible reversal of the impairment at each reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 balance sheet as long-term financial receivables at cost of leased asset increased for future interest.

After initial recognition of financial lease receivables, the part of lease receivables with maturity of up to one year, which includes future principal and interest for a specified future period, is transferred to short-term receivables from financial leases.

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 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, and presented analytically within accounts receivable from a finance lease activities.

Finance lease receivables recognized in the balance sheet as long-term receivables from financial lease activities are subsequently measured at amortized cost less estimated allowance for impairment.

Unearned finance income is calculated under terms of the lease and recorded in the balance sheet within long-term receivables from finance lease activities, and relates to future payments with maturities longer than one year.

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.

3.7. Short-term Receivables

Accounts receivables are presented at their invoiced values, less allowance for impairment.
Short-term receivables include:
- receivables from customers,
- short-term placements,
- receivables from employees,
- other short-term receivables.

Short-term receivables from customers arising from sales of goods and services are recognized at the moment of sale or service. On initial recognition, receivables are measured at contracted sales value, decreased for contracted amount of discounts and rebates, increased for calculated VAT. Income is recognized at net sales price on the accrual basis (invoiced realization).

If sales income had been recognized, using the accrual basis, and risk of default subsequently appears, receivables are indirectly provisioned and the provision is charged to operating expenses. Direct impairment provision will be used if it is certain that receivables will not be collected.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Short-term Receivables (Continued)

The Company calculates indirect impairment provision in accordance with applicable Asset classification policy. Impairment provision of short-term receivables is divided into two groups:
a) Impairment of short-term receivables overdue by more than 60 days
b) Impairment of short-term receivables overdue by less than 60 days.

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

Receivables from customers 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 to each balance sheet date.

Short-term Investments

Short-term investments include short-term deposits, securities and assets held under finance lease with maturity up to one year.

Short-term deposits are initially recognized at historical cost. When the Company enters into contracts for short-term deposits with a foreign currency clause or into contracts for deposits in foreign currency, after initial recognition the effects of foreign currency clause are calculated, and exchange gains/losses are recorded in the Income Statement.

Short-term investments in securities are related to securities available for sale until the date of maturity. They are initially recorded at historical cost. The Company determines the fair value of securities, and records the difference between fair value and book value under unrealized gains or losses on securities.

Short-term receivables from finance lease activities represent part of receivables with maturity up to one year consisting of future interest and future principal for that period.

Investments in leases, presented in the balance sheet as short-term receivables from finance lease activities, are subsequently measured at amortized cost less estimated impairment provision for short-term receivables related to short-term receivables from finance lease activities with maturity up to one year.

3.8. Impairment of Financial Assets

In accordance with its internal policy, at each reporting date 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Impairment of Financial Assets (Continued)

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 of a group of related parties.

Risk-weighted assets can be divided into **seven classes**:

(a) Good assets (Performing):

A1 very good receivables, which on reporting date have no delays or have delays not longer than 15 days
A2– standard receivables, which are, on reporting day, overdue between 15 and 30 days
B1 receivables from the debtors with minor difficulties in payment which are overdue between 30 and 90 days

(b) Bad assets (Non-performing):

B2 (Past due) – Exposures, except those that are classified as Doubtful, Substandard or Restructured as at the balance sheet date, for which overdue receivables are in delay longer than 90 days
R (Restructured) – Exposures where ILB changes the original terms of finance due to deterioration in creditworthiness of the borrower (such as granting of a grace period on payments or debt and interest reduction). If changed conditions result in a loss, the exposure will be classified as Restructured
C1 (Substandard) – Exposures where debtors have temporary objective financial or economic difficulties, but will be able to overcome those in the foreseeable future
C2 (Doubtful) – Exposures to borrowers who are effectively insolvent (though not yet legally) or have a similar status, regardless of the losses that the Company will have

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
- 60% of exposure, if the leased asset is a vehicle (passenger or commercial),
- 40% of exposure, if the leased asset is manufacturing or other equipment,
- 30% of exposure, if the leased asset is agricultural machinery.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Impairment of Financial Assets (Continued)

If adequate serial data for statistical calculation of PD and LGD for impairment provisions calculation does not exist, those parameters can be evaluated based on historical experience and subjective evaluation. In this case, the general provisioning rates are applied as follows:

(a) 0% for receivables by members of Intesa Sanpaolo Group, and first-class international banks;
(b) 0.5% for class A1;
(c) 3% for class A2;
(d) 7.5% for class B1;
(e) 30% for class B2;
(f) 70% for class C1; and
(g) 100% for class C2.

The carrying amount of the asset is reduced through the use of an allowance for impairment account and the amount of the impairment provision loss arising from impairment of financial assets is recognized in the income statement as an impairment loss on financial assets (Note 10).

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized as income from release of provisions in the income statement.

3.9. Inventories

On 17 December 2012, the Company adopted amendments to its Accounting Manual. With these amendments, the recording method of financial lease assets repossessed in exchange for uncollectible receivables has been modified.

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 Financial lease assets repossessed in exchange for uncollectible receivables at the lower of two values: estimated value (fair value) or the value of financial placement without amortization (carrying amount).

The repossessed leased asset recognized as inventory is measured at fair value. 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 leased asset are taken into consideration. Subsequent measurement of leased 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 financial lease contract (carrying amount), is greater than the appraised value of a leased asset, such a negative difference is recorded within the accounts group Impairment provision of financial lease assets repossessed in exchange for uncollectible receivables. According to previous accounting policy, this negative difference was recorded within the group Short-term receivables, and such receivables were fully provided for.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Inventories (Continued)

If the value of financial placements without amortization based on financial lease contract (carrying amount), is less than the estimated value of a leased asset, such a positive difference is recorded within off-balance sheet items (memo account) up to the moment of sale, when actually realized positive difference is transferred to the balance sheet.

3.10. Cash and Cash Equivalents

Cash and cash equivalents comprise cash on current accounts held with banks. In accordance with the decision of the National Bank of Serbia dated 17 September 2012, the Company is no longer required to form an obligatory foreign currency reserve.

The Company performs domestic payment and settlement transactions though its current accounts held with Banca Intesa a.d. Beograd. The Company performs payment and settlement transactions in foreign currency through its foreign currency account held with Banca Intesa a.d. Beograd. At the reporting date, the balance of foreign currency accounts is translated into RSD at the official exchange rates published by the National Bank of Serbia, prevailing at the balance sheet date.

3.11. Borrowings

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.

Gains and losses are recognized in the income statement upon the liabilities write-off, as well as during the amortization period.

3.12. Operating Liabilities

Trade payables and other short-term liabilities are measured at their nominal values.

3.13. Provisions and Contingencies

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 obligation; 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 29).

Provisions for retirement benefits are measured at the present value of the estimated future cash outflows using interest rates of high-quality securities that are denominated in the currency in which the benefits will be paid.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Provisions and Contingencies (Continued)

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 three 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 the 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.

The Company is involved in a number of lawsuits stemming from its daily operations. The Company regularly assesses the likelihood of negative outcomes of these suits, 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, exist. 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 not 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 35), unless the possibility of outflow of resources embodying economic benefits is small.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Provisions and Contingencies (Continued)

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.

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 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.

Taxes and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise. The Company has no additional liabilities for employee benefits with respect to these matters.

(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*

Accumulated compensated absences may be carried forward and used in future periods if the current period’s entitlement has not been fully used. The expected cost of accumulated compensated absences is recognized in the amount that is expected to be paid as a result of the unused entitlement that has accumulated as of the reporting date. In the instance of non-accumulating compensated absences, no liability or expense is recognized until the time of the absence.

The Company neither has pension funds, nor share-based remuneration options; consequently there are no identified obligations in that respect as of 31 December 2012.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15. Taxes and Contributions

(a) Income Tax

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 and 119/2012) and by-laws. Income tax is payable at the rate of 10% 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 income statement, in the manner prescribed by this Law.

During the year, the Company pays income tax in monthly installments, estimated on the basis of the prior year Tax return. The annual Tax balance is submitted within 10 days after the expiry of the deadline for the submission of financial statements, i.e., by 10 March the following year.

In accordance with the Corporate Income Tax Law, a tax credit is recognized in the amount equal to 20% of the investments in own property and equipment used to perform the core commercial activities, but it cannot exceed 50% of a tax liability in the year in which the investment was made. The non-utilized part of the tax credit in respect of investments in property and equipment can be carried forward to the profit tax account in future accounting periods, but not for longer than ten years. In each year, the tax credit deriving from investments made in that year is to be applied first, and thereafter, the carried forward tax credits from previous years are to be used in the order of investment, up to the limit of 50% of calculated tax in a stated 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. Losses of the current period may be transferred to the account of profit determined in the annual tax return for future accounting periods, but not for longer than 5 ensuing years.

Deferred Income Tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where a deferred tax liability arises from the initial recognition of goodwill or from an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15. Taxes and Contributions (Continued)

(a) Income Tax (Continued)

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 balance sheet date.

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.

(b) Taxes, Contributions and Other Duties Not Related to Operating Result

Taxes, contributions and other duties 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. These taxes and contributions are included within operating expenses (Note 11).

3.16. 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 36).

4. CRITICAL ACCOUNTING JUDGEMENTS 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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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.

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.

The impact of any changes in these assumptions could be material to the Company's financial position, and the results of its operations. As an example, if the Company was to shorten the average useful life for 1%, this would result in additional depreciation and amortization expense of approximately RSD 397 thousand for the twelve-month period.

Impairment of Non-Financial Assets and Inventories

The Company's management reviews the carrying amounts of the Company's intangible assets and equipment and inventories (repossessed finance lease assets) 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 value, 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.

5. INTEREST INCOME AND EXPENSE FROM FINANCE LEASE ACTIVITIES

	2012	2011
Interest income from finance lease activities		
Interest income from finance lease activities - new leased assets	360,766	316,654
Interest income from finance lease activities - used leased assets	3,856	4,962
Penalty interest	25,334	13,809
Total	**389,956**	**335,425**
Interest expense from finance lease activities		
Interest expense on other borrowings from abroad	10,875	365
Interest expense on borrowings from related parties in the country	47,464	44,249
Interest expense on borrowings from related parties abroad	165,193	97,043
Total	**223,532**	**141,657**
Net interest income	**166,424**	**193,768**

6. OPERATING INCOME FROM FINANCE LEASE ACTIVITIES

	2012	2011
Income from delivering services - finance lease origination fees	26,804	21,929
Income from warnings	5,677	5,159
Intercalary interest income	17,304	36,476
Income from re-billed expenses to customers	8,304	19,332
Total	**58,089**	**82,896**

7. OPERATING EXPENSE FROM FINANCE LEASE ACTIVITIES

	2012	2011
Insurance for leased assets	2,923	14,151
Storage of repossessed leased assets	3,731	2,197
Expenses from repossessing leased assets	1,999	1,545
Registration fees of lease agreements	2,371	2,544
Other expenses from finance lease activities	3,505	6,523
Total	**14,529**	**26,960**

8. NET INTEREST INCOME, FOREIGN EXCHANGE GAINS AND EFFECTS OF FOREIGN CURRENCY CLAUSE

	2012	2011
Net interest income	98,178	87,651
Net income from foreign currency clause application	(67,726)	17,617
Net foreign exchange gains/(losses)	92,723	14,937
Total	**123,175**	**120,205**

9. NET GAINS/ (LOSSES) ON SALE OF INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND OTHER ASSETS

	2012	2011
Gains on sale of intangible assets and equipment	992	438
Losses on sale of intangible assets and equipment	-	-
Net gains/(losses) on sale of intangible assets and equipment	**992**	**438**

10. NET LOSSES FROM CHANGES IN VALUE OF ASSETS

	2012	2011
Gains from changes in value of receivables from finance lease activities	168,285	134,518
Impairment of receivables	(222,848)	(211,104)
Net losses from changes in value of assets	**(54,563)**	**(76,586)**

The structure of **impairment of receivables** is presented in the table below:

	2012	2011
Impairment of receivables from finance lease activities overdue more than 60 days	59,246	116,985
Impairment of receivables overdue up to 60 days and future receivables from finance lease activities	65,710	49,912
Impairment of trade receivables overdue more than 60 days	3,703	9,229
Impairment of trade receivables overdue more up to 60 days	707	2,060
Impairment of short-term receivables for damages by agreements and general terms upon agreement termination	19,943	11,398
Impairment of short-term receivables for damages upon assessments	73,539	21,520
Total	**222,848**	**211,104**

11. OPERATING EXPENSES

	2012	2011
Maintenance costs (a)	9,165	7,877
Advertisement costs	3,808	6,636
Consulting services (b)	6,680	5,023
Rental expenses	4,823	4,975
Bank charges	961	4,248
Entertainment	2,575	3,296
Youth and student association services	1,948	2,832
Fuel	2,234	2,037
Legal services (c)	2,031	2,027
Transportation and postal service	1,995	2,001
Costs of material	1,656	1,770
Professional development and literature	679	1,200
Spare parts and tools	905	1,180
Audit services (d)	3,861	1,095
Membership fees	939	906
Insurance premiums	921	679
Translation services and similar services	355	230
Tax expenses (e)	19,867	12,943
Other services	6,694	6,316
Total	**72,097**	**67,271**

(a) Maintenance costs comprise:

	2012	2011
“Nova” software maintenance expenses	7,693	6,760
Maintenance of equipment	481	536
Other maintenance costs	991	581
Total	**9,165**	**7,877**

(b) An increase in the costs of consulting services in comparison with the prior year was recorded due to an increase in the level of services under the Agreement on Business Cooperation with Banca Intesa a.d. Beograd.

(c) Bank charges are lower than in 2011 since the Company did not draw any new credit line in the country.

(d) In 2012 costs of audit services increased comparing to 2011 due to change of auditor and a new contract with a higher fee.

(e) Tax expenses grew comparing to 2011 due to increased costs of withholding tax which the Company calculates and pays for liabilities that include interest toward related parties abroad.

12. SALARIES, BENEFITS AND OTHER PERSONAL EXPENSES

	2012	2011
Gross salaries	62,986	60,335
Payroll taxes and contributions	8,504	8,197
Service agreement compensations	813	361
Other personal expenses and benefits	788	1,145
Total	**73,091**	**70,038**

13. DEPRECIATION AND AMORTIZATION EXPENSES

	2012	2011
Amortization of intangible assets (Note 18)	3,488	2,169
Depreciation of property, plant and equipment (Note 19)	4,830	4,952
Total	**8,318**	**7,121**

14. PROVISIONS

	2012	2011
Provision for retirement benefits (Note 29)	-	186
Provision for unused vacations (Note 33)	-	63
Total	**-**	**249**

15. OTHER INCOME

	2012	2011
Rental income	6,328	8,969
Release of provision for retirement benefits (Note 29)	192	-
Release of provisions for unused vacation	626	-
Income from reduction in liabilities	51	70
Other income	24,434	34,789
Total	**31,631**	**43,828**

Rental income arises from the Agreement on Business and Technical Cooperation with Delta Generali a.d.o. Beograd for renting business premises.

15. OTHER INCOME (Continued)

Other income earned in 2012 mostly relates to the refund of withholding tax by Intesa Sanpaolo S.p.A. in the total amount of RSD 4,004 thousand, as well as income based on verification of tax base changes that are expensed in prior periods i.e. for clients who completed bankruptcy proceedings in the amount of RSD 11,273 thousand.

16. OTHER EXPENSES

	2012	2011
Expenses for humanitarian, cultural, health and educational purposes	6,500	19,136
Direct write-off of receivables	13,271	11,898
Other expenses	279	20
Total	**20,050**	**31,054**

Expenses for humanitarian, cultural, health and educational purposes incurred in 2012 mostly relate to expenses arising from the Agreement on donation signed with the Basketball club "Radnički", Kragujevac in the amount of RSD 6,500 thousand.

Direct write-off of receivables relates to three clients for which the bankruptcy proceedings were completed during 2012. The Company was not able to collect its registered receivables from the bankruptcy estate, and therefore upon completion of the proceedings the receivables were written off.

17. INCOME TAXES

(a) Components of Income Taxes

Components of income tax expense are:

	2012	2011
Current tax expense	32,970	24,808
Deferred tax expense	-	-
Deferred tax income	(11,280)	(213)
Total income tax expense	**21,690**	**24,595**

17. 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 2012 and 2011 is presented below:

	2012	2011
Profit before tax	**137,674**	**161,856**
Income tax at statutory rate of 10%	**13,767**	**16,186**
Non-deductible expenses	18,893	8,759
Reconciliation of income	-	(645)
Write-off of deferred tax assets	-	-
Adjustment of previously recognized deferred tax assets	-	-
Utilized tax credits based on investment in equipment in the current period	(28)	(136)
Other	338	431
Income tax expense	**32,970**	**24,595**
Deferred tax assets	(11,280)	**-**
Income tax less deferred tax assets	**21,690**	**-**
Effective tax rate	*15.75%*	*15.20%*

(c) Deferred Tax Assets

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

	2012	2011
Balance as at 1 January	**495**	**282**
Effects of temporary differences credited/ (charged) to the income statement	11,280	213
Balance as at 31 December	**11,775**	**495**

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.

17. INCOME TAXES (Continued)

(c) Deferred Tax Assets (Continued)

The following table represents the bases for recording deferred tax income/ (expense) and the effect on the income statement for the years ended 31 December 2012 and 2011:

	Deferred tax assets 2012	Income Statement 2012	Deferred tax assets 2011	Income Statement 2011
Temporary differences between the carrying amount of equipment and intangible assets and their tax base	898	403	495	213
Disallowed tax-deducted impairments	10,844	10,844	-	-
Investments in equipment	-	-	-	-
Provisions in accordance with IAS 19	33	33	-	-
	11,775	**11,280**	**495**	**213**

18. INTANGIBLE ASSETS

	Licenses and software	Intangible assets under development	TOTAL
COST			
Balance as at 1 January 2011	**7,914**	**-**	**7,914**
Additions during the year	14,580	-	14,580
Disposals	(5,530)	-	(5,530)
Balance as at 31 December 2011	**16,964**	**-**	**16,964**
Additions during the year	2,506	-	2,506
Transfer (from)/to	-	-	-
Disposals	(62)	-	(62)
Balance as at 31 December 2012	**19,408**	**-**	**19,408**
ACCUMULATED AMORTIZATION			
Balance as at 1 January 2011	**5,937**	**-**	**5,937**
Amortization (Note 13)	2,169	-	2,169
Disposals	(5,530)	-	(5,530)
Balance as at 31 December 2011	**2,576**	**-**	**2,576**
Amortization (Note 13)	3,488	-	3,488
Disposals	-	-	-
Balance as at 31 December 2012	**6,064**	**-**	**6,064**
Net book value as at:			
- 31 December 2012	**13,344**	**-**	**13,344**
- 31 December 2011	**14,388**	**-**	**14,388**

In 2012, the upgrade of the information system "Nova" was extended with two new modules; therefore, the overall increase in licenses and software with respect to these matters amounts to RSD 2,506 thousand.

The Company's management estimates that there are no indications that intangible assets are impaired as at 31 December 2012.

19. PROPERTY, PLANT END EQUIPMENT

	Vehicles	Furniture	Other equipment	TOTAL
COST				
Balance as at 1 January 2011	**17,441**	**2,912**	**2,313**	**22,666**
Additions during the year	3,671	175	698	4,544
Disposals	(2,342)	(36)	(537)	(2,915)
Balance as at 31. December 2011	**18,770**	**3,051**	**2,474**	**24,295**
Additions during the year	4,183	122	197	4,502
Disposals	(4,830)	-	(469)	(5,299)
Balance as at 31 December 2012	**18,123**	**3,173**	**2,202**	**23,498**
ACCUMULATED DEPRECIATION				
Balance as at 1 January 2011	**8,298**	**1,151**	**1,185**	**10,634**
Depreciation (Note 13)	4,155	383	414	4,952
Disposals	(1,954)	(25)	(507)	(2,486)
Balance as at 31 December 2011	**10,499**	**1,509**	**1,092**	**13,100**
Depreciation (Note 13)	4,040	384	406	4,830
Disposals	(4,830)	-	(416)	(5,246)
Balance as at 31 December 2012	**9,709**	**1,893**	**1,082**	**12,684**
Net book value as at:				
- 31 December 2012	**8,414**	**1,280**	**1,120**	**10,814**
- 31 December 2011	**8,271**	**1,542**	**1,382**	**11,195**

During 2012, the Company purchased two passenger vehicles. One passenger vehicle was given for financial lease purposes, and two were written off. In addition, the Company purchased computer equipment and furniture for conducting regular business.

The Company's management estimates that there are no indications that equipment is impaired as at 31 December 2012.

20. LONG-TERM RECEIVABLES FROM FINANCE LEASE ACTIVITIES

	2012	2011
Overdue receivables (Note 22)	546,933	639,465
Up to 1 year (Note 22)	1,739,666	1,697,275
From 1 to 5 years	2,962,840	2,870,921
Over 5 years	29	35,998
Total receivables from finance lease activities (a)	**5,249,468**	**5,243,659**
Overdue receivables	(546,933)	(639,465)
Portion of long-term receivables with maturity up to 1 year	(1,739,666)	(1,697,275)
Gross long-term receivables	**2,962,869**	**2,906,919**
Less: Allowance for impairment of long-term receivables (b)	(46,310)	(38,830)
Balance as at 31 December	**2,916,559**	**2,868,089**

Long-term receivables from finance lease activities amount to RSD 5,249,468 thousand as at 31 December 2012 (31 December 2011: RSD 5,243,659 thousand).

In accordance with the requirements of the Rules on the Chart of Accounts and the Contents of Accounts in the Chart of Accounts for Lessors, overdue receivables and portion of long-term receivables from finance lease activities with maturity up to one year in the gross amount of RSD 2,286,599 thousand (31 December 2011: RSD 2,336,740 thousand) has been presented within Short-term receivables from finance lease activities (see Note 22).

(a) The present and future value of minimum lease payments receivable as at 31 December 2012 are presented in the table below:

	Net Present Value	Unearned income	Gross receivables
Up to 1 year and overdue	2,286,599	303.266	2,589,865
From 1 to 5 years	2,962,840	321,730	3,284,570
Over 5 years	29	-	29
Total	**5,249,468**	**624,996**	**5,874,464**

The present and future value of minimum lease payments receivable as at 31 December 2011 are presented in the table below:

	Net Present Value	Unearned income	Gross receivables
Up to 1 year and overdue	2,336,740	290,366	2,627,106
From 1 to 5 years	2,870,921	351,448	3,222,369
Over 5 years	35,998	843	36,841
Total	**5,243,659**	**642,657**	**5,886,316**

20. LONG-TERM RECEIVABLES FROM FINANCE LEASE ACTIVITIES (Continued)

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

	2012	2011
Balance as at 1 January	**38,830**	**51,436**
Annual impairments – net increase	4,861	-
Annual impairments – net decrease	-	(12,328)
Foreign exchange differences, net	2,619	(278)
Balance as at 31 December	**46,310**	**38,830**

(c) Finance lease agreements are signed for the period up to 7 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 at the end of the payment of all the contracted installments. In 2012, average lease origination fee amounted to 1.04% of the gross cost of the leased asset (2011: 1.04%).

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

Nominal interest rates on finance lease agreements approved in 2012 vary in the following ranges:

	From	To
Receivables in EUR	5.00%	10.83%
Receivables in RSD	11.79%	15.91%

The average rate of the clients' participation in accordance with the lease agreements in 2012 amounted to 28.91% of the net cost of the leased asset (2011: 15.95%).

21. INVENTORIES

	2012	2011
Advances paid	1,052	1,174
Finance lease assets repossessed in exchange for uncollectible receivables	123,316	140,835
Balance as at 31 December	**124,368**	**142,009**

As at 31 December 2012, finance lease assets repossessed in exchange for uncollectible receivables amounting RSD 123.316 thousand are intended to be reactivated through finance lease agreements or for further selling. The repossessed finance lease assets relate to 66 finance lease agreements. The carrying amount of the repossessed finance lease assets mostly relate to freight vehicles in the amount of RSD 85,371 thousand.

21. INVENTORIES (Continued)

In the current reporting period continued activities on the sale, i.e., reactivation of the repossessed finance lease assets through new finance lease agreements have been undertaken.

21.1 Finance Lease Assets

As at 31 December 2012 finance lease assets amounted to RSD 13,670 thousands (31 December 2011: RSD 110,225 thousands) and relate to the procurement of the lease assets, based on two contracts whose activation is expected in 2013.

22. SHORT-TERM RECEIVABLES FROM FINANCE LEASE ACTIVITIES

	2012	2011
Portion of long-receivables from finance lease activities with maturity up to 1 year (Note 20)	1,739,666	1,697,275
Receivables overdue more than 60 days	421,649	501,770
Receivables overdue up to 60 days	125,284	137,695
Gross receivables	**2,286,599**	**2,336,740**
Less: Allowance for impairment		
Portion of long-receivables from finance lease activities with maturity up to 1 year	(24,641)	(20,219)
Receivables overdue more than 60 days	(363,721)	(419,285)
Receivables overdue up to 60 days	(38,921)	(37,710)
	(427,283)	**(477,214)**
Balance as at 31 December	**1,859,316**	**1,859,526**

Movements in the allowance for impairment of short-term receivables from finance lease activities during the year were as follows:

	2012	2011
Balance as at 1 January	**477,214**	**423,664**
Impairments for the year – net increase	-	52,703
Reversal of impairment losses – net decrease	(89,699)	-
Foreign currency gains/losses, net	39,768	847
Balance as at 31 December	**427,283**	**477,214**

23. OTHER RECEIVABLES FROM FINANCE LEASE ACTIVITIES

	2012	2011
Finance lease origination fees	7,108	13,387
Receivables for re-billed expenses	4,356	4,681
Receivables for intercalary interest	1,656	25,922
Receivables for penalty interest	960	4,699
Receivables from issuing warnings	918	698
Other	1,412	1,268
Gross receivables	**16,410**	**50,655**
Less: Allowance for impairment	(13,248)	(20,297)
Balance as at 31 December	**3,162**	**30,358**

24. RECEIVABLES FROM OPERATING ACTIVITIES

	2012	2011
Receivables for damage compensation upon the sale of leased assets	100,664	108,987
Receivables from leased assets sold	2,992	2,731
Receivables for rent	736	907
Interest receivable on term deposits	1,458	468
Other receivables	6,950	1,953
Gross receivables	**112,800**	**115,046**
Less: Allowance for impairment	(103,560)	(108,987)
Balance as at 31 December	**9,240**	**6,059**

25. SHORT-TERM FINANCIAL PLACEMENTS

	2012	2011
Securities due within 1 year	218,515	-
Short-term deposits in RSD	370,000	702,726
Short-term deposits in EUR	1,171,876	449,956
Balance as at 31 December	**1,760,391**	**1,152,682**

As at 31 December 2012, short-term financial placements relate to term deposits placed with Banca Intesa a.d. Beograd for the period of 185 days, at the rates ranging from 1.50% to 3.70% per annum for placements in EUR, i.e. at rates ranging from the key policy rate of the National Bank of Serbia (two-week repo transactions) decreased by 1% to the key policy rate of the National Bank of Serbia (two-week repo transactions) decreased by 0.25% per annum for placements in RSD.

26. CASH AND CASH EQUIVALENTS

	2012	2011
Current accounts in RSD	27,173	29,918
Foreign currency accounts	56,539	29
Obligatory reserve in foreign currency	-	348,790
Balance as at 31 December	**83,712**	**378,737**

During 2012 and 2011, the Company performed payment and settlement transactions in domestic and foreign currency through its accounts held with Banca Intesa a.d. Beograd.

27. VALUE ADDED TAX AND ACCRUALS

	2012	2011
Input VAT	-	-
Accrued interest on term deposits	24,703	56,040
Accrued interest income on financial Placements	13,823	13,478
Advance payment for income tax	22,930	20,243
Other accruals	8,448	9,794
Balance as at 31 December	**69,904**	**99,555**

Accrued interest income on financial placements relates to the interest accrued as at 31 December 2012 with respect to all finance lease agreements for which interest is due in 2013.

Accrued interest on term deposits relates to the accrued interest income as at 31 December 2012, calculated in accordance with the Agreements on term deposits in RSD and foreign currency with maturity on 30 March 2013, when interest is also due.

Other accruals as at 31 December 2012 mostly relate to receivables for the advance payment of income tax amounting to RSD 4,459 thousand.

28. EQUITY

The Company's equity comprises stake capital and retained earnings, as presented in the table below:

	2012	2011
Unrealized losses on securities	(249)	-
Initial capital – stake capital	960,374	960,374
Retained earnings	417,125	301,141
Balance as at 31 December	**1,377,250**	**1,261,515**

28. EQUITY (Continued)

/i/ *Initial Capital – Stake Capital*

The Company's stake capital structure by stakeholders' contribution as at 31 December 2012 and 2011 is presented in the table below:

	2012	2011
Banca Intesa a.d. Beograd	960,374	960,374
Total	**960,374**	**960,374**

Accordingly, as at 31 December 2012 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 2012 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).

/ii/ *Retained Earnings*

Retained earnings of the Company as at 31 December 2012 amount to RSD 417,125 thousand (31 December 2011: RSD 301,141 thousand) and comprise profit for the year amounting to RSD 115,984 thousand and profit from prior years amounting to RSD 301,141 thousand.

29. PROVISIONS

	2012	2011
Long-term provisions for retirement benefits	140	332
Balance as at 31 December	**140**	**332**

The provision for employees' retirement benefits have been recorded on the basis of the Report of an independent actuary as at 31 December 2012 in the amount of discounted present value of future payments.

When determining the present value of the expected outflows, the discount rate of 10% has been used, representing an appropriate rate according to the IAS 19 "Employee Benefits" in the absence of a developed market for high quality corporate bonds.

The provision was determined in line with the Company's Employment Manual and the assumption of average salary increase rate of 7% per annum.

29. PROVISIONS (Continued)

Movements in the provision during the year were as follows:

	2012	2011
Balance as at 1 January	**332**	**146**
Provisions during the year (Note 14)	-	186
Release of provisions (Note 15)	(192)	-
Balance as at 31 December	**140**	**332**

30. LONG-TERM BORROWINGS

	2012	2011
Long-term borrowings in the country		
Long-term borrowings in the country – with EUR foreign currency clause	493,537	741,459
Long-term borrowings in the country – with CHF foreign currency clause	-	106,961
Total	**493,537**	**848,420**
Long-term borrowings from abroad		
Long-term borrowings from abroad in EUR	1,705,775	3,243,868
Long-term borrowings from abroad in CHF	-	233,681
Total	**1,705,775**	**3,477,549**
Balance as at 31 December	**2,199,312**	**4,325,969**

As at 31 December 2012, long-term borrowings in the county completely relate to the loans granted by Banca Intesa a.d. Beograd. Long-term borrowings abroad relate to the liabilities towards Intesa Sanpaolo S.p.A., Succursale de Paris (RSD 568,592 thousand) and Council of Europe Development Bank, Paris (RSD 1,137,183 thousand).

In 2012, the Company withdrew the second installment of the credit line from CEB - Council of Europe Development Bank, Paris in the amount of EUR 5 million. The total credit line amounting to EUR 10 million has been approved for the period of 8 years. As collateral provided for the first installment of the aforementioned long-term loan, the Company received the guarantee from Intesa Sanpaolo S.p.A., Milan, which has been recorded within the Off-balance sheet items (RSD 1,137,183 thousand).

In 2012, the Company repaid a portion of long-term loans granted by Intesa Sanpaolo S.p.A., Milan, in the amount of CHF 0.25 million and EUR 3 millions.

Interest rates on long-term borrowings range from 0.43% to 5.40% per annum, depending on the currency and maturity period.

30. LONG-TERM BORROWINGS (Continued)

The maturity structure of long-term borrowings is presented in the table below:

	2012	2011
Up to 1 year (Note 31)	3,128,152	900,646
From 1 to 2 years	868,050	3,311,999
From 2 to 5 years	857,436	752,368
Over 5 years	473,826	261,602
Balance as at 31 December	**5,327,464**	**5,226,615**

31. SHORT-TERM BORROWINGS

	2012	2011
Portion of long-term borrowings with maturity up to 1 year in the country	279,976	377,441
Current portion of long-term borrowings with maturity up to 1 year from abroad	2,848,176	523,205
Balance as at 31 December	**3,128,152**	**900,646**

The total outstanding balance of borrowings as at 31 December 2012 relate to the liabilities towards the members of Intesa Sanpaolo Group.

32. INTEREST AND FINANCING COSTS PAYABLE

	2012	2011
Obligations from guarantees	721	-
Interest and financing costs payable	2,818	5,407
Balance as at 31 December	**3,539**	**5,407**

33. OTHER LIABILITIES

	2012	2011
Trade payables abroad	721	665
Domestic trade payables	7,691	11,096
Other payables to customers	32,593	30,236
Other liabilities	5,079	10,665
Liabilities for unused vacations (Note 14)	1,093	1,719
Balance as at 31 December	**47,177**	**54,381**

Other payables to customers totaling RSD 32,593 thousand as at 31 December 2012 mostly relate to overpaid installments by customers it the amount of RSD 17,333 thousand and payments received from insurance companies in the amount of RSD 12,599 thousand.

34. VALUE ADDED TAX, LIABILITIES FROM EARNINGS, OTHER PUBLIC CHARGES AND ACCRUALS

	2012	2011
Accrued interest expenses on long-term Borrowings	7,846	7,949
Deferred income – finance lease origination fees	49,593	46,691
Accrued other expenses	20,117	44,681
Withholding tax payable	781	843
Value added tax payable	7,916	-
Balance as at 31 December	**86,253**	**100,164**

35. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating Lease Commitments

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

The future minimum lease payments under operating non-cancellable leases are as follows:

	2012	2011
Up to 1 year	2,876	2,598
From 1 to 5 years	11,504	10,392
	14,380	**12,990**

(b) Litigations

As at 31 December 2012, numerous court proceedings are initiated against the Company. The majority of these court proceedings against the Company relate to litigious processes, where the prosecutor is the Parking servis. The total value of the damage claim amounts to RSD 1,755 thousand (31 December 2011: RSD 433 thousand), excluding penalty interests that may arise with respect thereto.

The Company's management does not expect losses arising with respect to this litigation in the future period, and, accordingly, the accompanying financial statements for the year ended 31 December 2012 do not include a provision for potential losses with respect to this matter.

(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 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.

36. RELATED PARTY DISCLOSURES

A number of transactions are entered into with the stakeholder and other related parties in the ordinary course of business.

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

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

Outstanding balances of receivables and liabilities as at 31 December 2012 and 2011 resulting from transactions with Banca Intesa a.d. **Beograd**, as well as income and expenses earned/incurred during the year are presented as follows:

Receivables from Banca Intesa a.d. Beograd

	2012	2011
Term deposits (Note 25)	1,541,876	1,152,682
Cash and cash equivalents (Note 26)	83,712	378,737
Receivables from finance lease activities	115,439	154,078
Interest on transaction deposits	302	164
Interest on term deposits	1,156	304
Accrued interest on term deposits (Note 27)	24,703	56,040
Balance as at 31 December	**1,767,188**	**1,742,005**

Liabilities to Banca Intesa a.d. Beograd

	2012	2011
Long-term borrowings (Note 30)	493,537	848,420
Short-term borrowings (Note 31)	279,976	377,441
Interest payable (Note 32)	2,818	5,407
Other liabilities	9,037	5,695
Balance as at 31 December	**785,368**	**1,236,963**

Income from Transactions with Banca Intesa a.d. Beograd

	2012	2011
Financial income – interest	78,970	87,439
Interest income from finance lease activities	10,723	12,098
Other income	404	405
Total	**90,097**	**99,942**

Expenses from Transactions with Banca Intesa a.d. Beograd

	2012	2011
Financial expenses - interest	47,493	44,269
Rental costs	4,525	4,734
Expenses arising from service provision agreement	8,040	5,983
Other expenses	626	4,248
Total	**60,684**	**59,234**

36. RELATED PARTIES DISCLOSURES (CONTINUED)

(b) Transactions with Other Related Parties

As at 31 December 2012 and 2011, the Company had the following liabilities to the members of Intesa Sanpaolo Group - Intesa Sanpaolo S.p.A. Succursale de Paris, Paris and Intesa Sanpaolo S.p.A., Milan, as well as expenses incurred during the year:

Liabilities to the Members of Intesa Sanpaolo Group

	2012	2011
Other liabilities - Intesa Sanpaolo S.p.A.	721	-
Long-term borrowings – Intesa Sanpaolo S.p.A.	-	2,954,344
Long-term borrowings – Intesa Sanpaolo S.p.A. Succursale de Paris (Note 30)	568,592	-
Short-term borrowings – Intesa Sanpaolo S.p.A. (Note 31)	2,848,176	-
Short term borrowings – Intesa Sanpaolo S.p.A. Succursale de Paris	-	523,205
Balance as at 31 December	**3,417,489**	**3,477,549**

Expenses from Transactions with the Members of Intesa Sanpaolo Group

	2012		2011	
	Intesa Sanpaolo S.p.A.	Intesa Sanpaolo S.p.A. Succursale de Paris	Intesa Sanpaolo S.p.A.	Intesa Sanpaolo S.p.A. Succursale de Paris
Other expenses	1,204	130	-	-
Financial expenses - interest	143,212	21,981	84,007	13,036
Other operating expenses - withholding tax	16,049	2,306	9,536	1,300
Total expenses	**160,465**	**24,417**	**93,543**	**14,336**

(c) Salaries of the Key Management Personnel

During the years ended 31 December 2012 and 2011, salaries in the following amounts were paid to the Company's management:

	2012	2011
Total gross salaries	25,102	25,192
Total net salaries	19,813	19,945

No remunerations were paid to the members of the Supervisory Board in 2012 and 2011.

37. RISK MANAGEMENT

Risk is an inherent part of financial institution 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.

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, as well as in 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.

37. RISK MANAGEMENT (Continued)

The process of Risk Management is formalized through procedures adopted on 8 May 2012. 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, previously adopted procedures were approved:
- Procedure for managing foreign exchange risk
- Policy for managing credit risk

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.

37.1. Credit Risk

Credit risk is the risk that contractual party will not be able to fulfill the related contractual obligation, causing financial loss on the other side. By its internal acts and procedures, the Company implements the adequate system of credit risk management and reduces the credit risk to an acceptable level.

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

Credit risk management is carried out at the following levels:

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

According to the Agreement on Business Cooperation 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 Director makes the decision on placement approval based on the abovementioned proposal of the Department for Credit Analysis.

37. RISK MANAGEMENT (CONTINUED)

37.1. Credit Risk - Continued

The Department for Credit Analysis could approve independently Requirements for leasing under the following circumstances:
1.The Department for Credit Analysis can approve lease placements to clients, or to a group of related parties, in cases when total exposure (BIB+ILB), including that of the new placement, is not higher than EUR 100,000.00 in dinar equivalent, using middle exchange rate of NBS on the day of decision.

The Department for Credit Analysis 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 12 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.

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 include authorizations for account withdrawals and bills of exchange.

Depending on the assessment, additional collaterals may be required, such as: real estate mortgages, movable property pledges, buy-back contract with the supplier, and joint contracts with other entity which then becomes the joint debtor.

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

In accordance with the Agreement on business cooperation, the Risk Management Department of Banca Intesa a.d. Beograd performs assessment of impairment of the Company's receivables from finance lease activities.

37. RISK MANAGEMENT (Continued)

37.1. Credit Risk (Continued)

In the process of assessment of impairment provision for 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 150,000 (for corporative clients), and for non-performing retail exposures higher than EUR 50,000. The impairment provision is estimated monthly when every individual loan portfolio is analyzed.

In 2012, the professional body for managing non-performing placements was giving recommendations for finding the best possible solutions for dealing with bad and nonperforming 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** as at 31 December 2012, by types of receivables and based on the Company's internal grading system:

	High quality	Standard quality	Sub-standard quality	Uncollec-table and doubtful	Total 2012
Receivables from the related party - Banca Intesa a.d. Beograd	**115,439**	**-**	**-**	**-**	**115,439**
Receivables from customers					
Corporate customers	2,559,331	1,675,658	151,966	284,649	4,671,604
SMEs	125,486	29,805	11,948	41,314	208,553
Retail customers	-	93,739	7,052	12,935	113,726
Farmers	-	40,478	1,716	97,952	140,146
	2,684,817	**1,839,680**	**172,682**	**436,850**	**5,134,029**
Total	**2,800,256**	**1,839,680**	**172,682**	**436,850**	**5,249,468**
Participation in the total gross receivables	**53.34%**	**35.05%**	**3.29%**	**8.32%**	**100.00%**

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.

37. RISK MANAGEMENT (Continued)

37.1. Credit Risk (Continued)

(a) Portfolio Quality **(Continued)**

The structure of the total **allowance for impairment of receivables from finance lease activities** by types of receivables as at 31 December 2012 is presented in the table below:

	High quality	Standard quality	Sub-standard quality	Uncollec-table and doubtful	Total 2012
Impairments to the related party - Banca Intesa a.d. Beograd	-	-	-	-	-
Receivables from customers					
Corporate customers	6,065	62,255	43,940	210,009	322,269
SMEs	202	700	1,464	35,808	38,174
Retail customers	-	1,465	1,122	11,006	13,593
Farmers	-	1,132	480	97,945	99,557
	6,267	**65,552**	**47,006**	**354,768**	**473,593**
Total	**6,267**	**65,552**	**47,006**	**354,768**	**473,593**
Participation in the total allowance for impairment	**1.32%**	**13.84%**	**9.93%**	**74.91%**	**100.00%**

The following table presents the quality of the **gross portfolio, i.e. receivables from finance lease activities** as at 31 December 2011, by types of placements and based on the Company's internal grading system:

	High quality	Standard quality	Sub-standard quality	Uncollec-table and doubtful	Total 2011
Receivables from the related party - Banca Intesa a.d. Beograd	**154,078**	-	-	-	**154,078**
Placements to customers					
Corporate customers	374,790	1,280,912	1,282	240,264	1,897,248
SMEs	1,694,266	603,078	102,144	484,342	2,883,830
Retail customers	125,793	18,550	12,650	11,060	168,053
Farmers	48,294	1,492	-	90,664	140,450
	2,243,143	**1,904,032**	**116,076**	**826,330**	**5,089,581**
Total	**2,397,221**	**1,904,032**	**116,076**	**826,330**	**5,243,659**
Participation in the total gross receivables	**45.72%**	**36.31%**	**2.21%**	**15.76%**	**100,00%**

Amounts are reported in RSD thousands, unless otherwise indicated

37. RISK MANAGEMENT (Continued)

37.1. Credit Risk (Continued)

(a) Portfolio Quality **(Continued)**

The structure of the total **allowance for impairment of receivables from finance lease activities** by types of receivables as at 31 December 2011 is presented in the table below:

	High quality	Standard quality	Sub-standard quality	Uncollec-table and doubtful	Total 2011
Impairments to the related party - Banca Intesa a.d. Beograd	**-**	**-**	**-**	**-**	**-**
Receivables from customers					
Corporate customers	847	25,121	154	62,392	88,514
SMEs	3,614	17,389	13,169	292,074	326,246
Retail customers	251	316	1,518	8,395	10,480
Farmers	139	62	-	90,603	90,804
Total	**4,851**	**42,888**	**14,841**	**453,464**	**516,044**
Participation in the total allowance for impairment	**0.94%**	**8.31%**	**2.88%**	**87.87%**	**100.00%**

The following table presents the quality of the **net portfolio, i.e. receivables from finance lease activities** as at 31 December 2012 and 2011, by types of receivables and based on the Company's internal grading system:

	High quality	Standard quality	Sub-standard quality	Uncollec-table and doubtful	Total 2012
Receivables from the related party - Banca Intesa a.d. Beograd	**115,439**	**-**	**-**	**-**	**115,439**
Receivables from customers					
Corporate customers	2,553,266	1,613,403	108,025	74,641	4,349,335
SMEs	125,284	29,105	10,485	5,505	170,379
Retail customers	-	92,274	5,930	1,930	100,134
Farmers	-	39,346	1,236	6	40,588
	2,678,550	**1,774,128**	**125,676**	**82,082**	**4,660,436**
Total	**2,793,989**	**1,774,128**	**125,676**	**82,082**	**4,775,875**
Participation in the total net receivables	**58.50%**	**37.15%**	**2.63%**	**1.72%**	**100.00%**

37. RISK MANAGEMENT (Continued)

37.1. Credit Risk (Continued)

(a) Portfolio Quality (Continued)

	High quality	Standard quality	Sub-standard quality	Uncollec-table and doubtful	Total 2011
Placements to the related party - Banca Intesa a.d. Beograd	**154,078**	**-**	**-**	**-**	**154,078**
Receivables from customers					
Corporate customers	373,943	1,255,791	1,128	177,872	1,808,734
SMEs	1,690,652	585,689	88,975	192,268	2,557,584
Retail customers	125,542	18,234	11,132	2,665	157,573
Farmers	48,155	1,430	-	61	49,646
	2,238,292	**1,861,144**	**101,235**	**372,866**	**4,573,537**
Total	**2,392,370**	**1,861,144**	**101,235**	**372,866**	**4,727,615**
Participation in the total net receivables	**50.60%**	**39.37%**	**2.14%**	**7.89%**	**100.00%**

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 2012 is presented in the table below:

	Up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total 2012
Receivables from customers					
Corporate customers	63,235	25,264	7,074	-	95,573
SMEs	3,868	855	1	-	4,724
Retail customers	996	272	102	1	1,371
Farmers	2,874	190	33	-	3,097
Total	**70,973**	**26,581**	**7,211**	**1**	**104,765**
Participation in total overdue receivables of high and standard quality	**67.74%**	**25.37%**	**6.88%**	**0.01%**	**100.00%**

37. RISK MANAGEMENT (Continued)

37.1. Credit Risk (Continued)

(a) Portfolio Quality (Continued)

The ageing analysis of overdue receivables from customers of high and standard quality as at 31 December 2011 is presented in the table below:

	Up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total 2011
Placements to customers					
Corporate customers	42,252	12,728	19	-	54,999
SMEs	27,520	14,048	4,428	5	46,001
Retail customers	1,012	386	85	1	1,484
Farmers	854	3	966	-	1,823
Total	**71,638**	**27,165**	**5,498**	**6**	**104,307**
Participation in total overdue receivables of high and standard quality	**68.68%**	**26.04%**	**5.27%**	**0.01%**	**100.00%**

The structure of the Company's maximum credit risk exposure presented at its carrying value as at 31 December 2012, grouped by geographical sectors, is presented in the table below:

Geographical region	Receivables from banks	Receivables from other customers	Allowance for impairment	Total 2012
Belgrade	115,439	3,184,425	209,492	3,090,372
Vojvodina	-	1,180,225	101,415	1,078,810
Rest of Serbia	-	769,379	162,686	606,693
Total	**115,439**	**5,134,029**	**473,593**	**4,775,875**

The structure of the Company's maximum credit risk exposure presented at its carrying value as at 31 December 2011, grouped by geographical sectors, is presented in the table below:

Geographical region	Receivables from banks	Receivables from other customers	Allowance for impairment	Total 2011
Belgrade	154,078	3,206,074	(263,247)	3,096,905
Vojvodina	-	898,352	(93,672)	804,680
Rest of Serbia	-	985,155	(159,125)	826,030
Total	**154,078**	**5,089,581**	**(516,044)**	**4,727,615**

37. RISK MANAGEMENT (Continued)

37.1. Credit Risk (Continued)

(b) Maximum Exposure to Credit Risk (Continued)

The analysis of the Company's credit risk exposure stated at its carrying value as at 31 December 2012 and 2011, grouped by industrial sectors, is presented in the table below:

	Industry structure	Gross maximum exposure 2012	Net maximum exposure 2012	Gross maximum exposure 2011	Net maximum exposure 2011
1.	Agriculture, forestry and fishing (sector A)	348,801	317,532	125,060	97,342
2.	Mining industry; Processing industry; Water supply, waste water management and related activities (sectors B, C and E)	1,369,532	1,249,170	1,112,548	1,013,661
3.	Power supply, gas, steam supply and air conditioning (sector D)	4,304	4,175	309	295
4.	Construction (sector F)	597,682	570,329	704,460	650,133
5.	Wholesale and retail, vehicles and motorcycles repair (sector G)	424,777	377,972	490,508	408,794
6.	Traffic and warehousing; Media and communications (sectors H and J)	1,401,770	1,324,257	1,535,168	1,442,174
7.	Hotels and restaurants (sector I)	19,750	18,328	31,413	29,643
8.	Financial activities and insurance (sector K)	176,932	175,367	184,905	183,743
9.	Health care and social work (sector Q)	67,307	66,939	70,370	70,091
10.	Other industries (sectors L, M, N, O, P, R, S, T and U)	838,613	671,806	988,918	831,739
	Total	**5,249,468**	**4,775,875**	**5,243,659**	**4,727,615**

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 risk is measured in relation to the Company's equity. As of 31 December 2012, 14 clients with the largest net receivables individually have exposure risk exceeding 5% of the Company's equity.

Net receivables from 20 largest clients as at 31 December 2012 amounted to RSD 2,366,378 thousand (31 December 2011: RSD 2,558,165 thousand) and their exposure to the equity was 177.98% (2011: 202.78%).

All other clients with the total net placements amounting to RSD 2,409,487 thousand (31 December 2011: RSD 2,169,450 thousand) had exposure to the equity of 181.22% (2011: 171.97%).

37. RISK MANAGEMENT (Continued)

37.1. 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 as at 31 December 2012 and 2011 is presented below:

	Gross receivables from finance lease activities	Allowance for impairment	Net receivables from finance lease activities
2012			
Retail customers	113,726	(13,592)	100,134
Corporate customers	4,998,587	(363,444)	4,635,153
Farmers	140,145	(99,557)	40,588
Total	**5,252,458**	**(476,593)**	**4,775,875**
2011			
Retail customers	168,053	(10,480)	157,573
Corporate customers	4,935,156	(414,760)	4,520,396
Farmers	140,450	(90,804)	49,646
Total	**5,243,659**	**(516,044)**	**4,727,615**

37. RISK MANAGEMENT (Continued)

37.2. Liquidity Risk

Liquidity risk is the risk that the Company would not be able to discharge 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).

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 2012, i.e. overdraft in the amount of RSD 15,000 thousand.

The table below analyses assets and liabilities of the Company into relevant maturity groupings based on the remaining period on the balance sheet date to the contractual maturity date. The table is made based on determined payments conditions.

The Maturity mismatch report as at 31 December 2012 indicates the high level of liquidity, especially in the period of next 6 months.

37. RISK MANAGEMENT (Continued)

37.2. Liquidity risk (Continued)

	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	Total
ASSETS									
Intangible assets	-	-	-	-	-	-	-	13,344	13,344
Property, plant and equipment	-	-	-	-	-	-	-	10,814	10,814
Receivables from finance lease activities	334,292	353,070	419,486	752,467	636,501	2,280,040	19	-	4,775,875
Trade receivables	-	-	-	-	-	-	-	3,162	3,162
Receivables from operating activities	3,752	2,704	1,326	-	-	-	-	-	7,782
Term deposits	1,171,876	370,000	-	-	-	-	-	-	1,541,876
Securities	-	-	-	-	-	-	-	218,515	218,515
Cash and cash equivalents		-	-	-	-	-	-	83,712	83,712
Interest receivables	16,941	23,072	-	-	-	-	-	-	39,983
Other assets and receivables	-	-	-	-	-	-	-	169,417	169,416
Deferred tax assets	-	-	-	-	-	-	-	11,775	11,775
TOTAL ASSETS	**1,526,861**	**748,816**	**420,812**	**752,467**	**636,501**	**2,280,040**	**19**	**510,739**	**6,876,255**
LIABILITIES AND EQUITY									
Provisions	-	-	-	-	-	-	-	140	140
Borrowings in the country	26,087	52,174	66,554	135,161	102,346	391,191	-	-	773,513
Borrowings from abroad	-	-	-	2,848,176	568,592	663,357	473,826	-	4,533,951
Interest payable	5,872	4,793	-	-	-	-	-	-	10,665
Trade payables	-	-	-	-	-	-	-	8,078	8,078
Other liabilities	-	-	-	-	-	-	-	119,689	119,689
Income tax payable	-	32,970	-	-	-	-	-	-	32,970
Total liabilities	**31,959**	**89,937**	**60,554**	**2,983,337**	**670,938**	**1,054,548**	**473,826**	**127,907**	**5,499,006**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,377,249**	**1,377,249**
TOTAL LIABILITIES AND EQUITY	**31,959**	**89,937**	**60,554**	**2,983,337**	**670,938**	**1,054,548**	**473,826**	**1,505,156**	**6,876,255**
Maturity mismatch as at:									
- 31 December 2012	**1,494,903**	**658,897**	**360,258**	**(2,230,870)**	**(34,437)**	**1,225,492**	**(473,807)**	**(994,418)**	**-**

37. RISK MANAGEMENT (Continued)

	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	Total
ASSETS									
Intangible assets	-	-	-	-	-	-	-	14,388	14,388
Property, plant and equipment	-	-	-	-	-	-	-	11,195	11,195
Receivables from finance lease activities	397,576	297,906	399,760	764,284	671,346	2,160,745	35,998	-	4,727,615
Trade receivables	-	-	-	-	-	-	-	30,358	30,358
Receivables from operating activities	3,919	-	1,672	-	-	-	-	-	5,591
Term deposits	345,315	702,726	-	104,641	-	-	-	-	1,152,682
Cash and cash equivalents	29,947	-	-	-	-	-	-	348,790	378,737
Interest receivables	15,071	55,315	-	-	-	-	-	-	70,386
Other assets and receivables	-	-	-	-	-	-	-	281,871	281,871
Deferred tax assets	-	-	-	495	-	-	-	-	495
TOTAL ASSETS	**791,828**	**1,055,947**	**401,432**	**869,420**	**671,346**	**2,160,745**	**35,998**	**686,202**	**6,673,318**
LIABILITIES AND EQUITY									
Provisions	-	-	-	-	-	-	-	332	332
Borrowings in the country	22,231	45,236	87,765	222,209	206,281	642,139	-	-	1,225,861
Borrowings from abroad	-	523,205	-	-	-	3,215,946	261,603	-	4,000,754
Interest payable	9,053	4,303	-	-	-	-	-	-	13,356
Trade payables	-	-	-	-	-	-	-	11,761	11,761
Other liabilities	-	-	-	-	-	-	-	134,931	134,931
Income tax payable	-	24,808	-	-	-	-	-	-	24,808
Total liabilities	**31,284**	**597,552**	**87,765**	**222,209**	**206,281**	**3,858,085**	**261,603**	**147,024**	**5,511,803**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,261,515**	**1,261,515**
TOTAL LIABILITIES AND EQUITY	**31,284**	**597,552**	**87,765**	**222,209**	**206,281**	**3,858,085**	**261,603**	**1,408,539**	**6,673,318**
Maturity mismatch as at:									
- 31 December 2011	**760,544**	**458,395**	**313,667**	**647,211**	**465,065**	**(1,697,340)**	**(225,605)**	**(721,937)**	**-**

37.3. 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.

37.3.1. 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 the 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 following table shows the Reprising gap report, i.e. the Company's exposure to the interest rate risk as at 31 December 2012. The table includes the Company's assets and liabilities at their carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

The Reprising 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.

37. RISK MANAGEMENT (Continued)

37.3. Market Risk (Continued)

37.3.1. Interest rate risk (Continued)

	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	Interest non-sensible	Total
ASSETS									
Intangible assets	-	-	-	-	-	-	-	13,344	13,344
Property, plant and equipment	-	-	-	-	-	-	-	10,814	10,814
Receivables from finance lease activities	756,561	4,001,325	5,930	2,993	1,713	7,353	-	-	4,775,875
Trade receivables	-	-	-	-	-	-	-	3,162	3,162
Receivables from operating activities								7,782	7,782
Term deposits	1,541,876	-	-	-	-	-	-	-	1,541,876
Securities	-							218,515	218,515
Cash and cash equivalents	-	-	-	-	-	-	-	83,712	83,712
Interest receivables								39,983	39,983
Other assets and receivables	-	-	-	-	-	-	-	169,417	169,417
Deferred tax assets	-	-	-	-	-	-	-	11,775	11,775
TOTAL ASSETS	**2,298,437**	**4,001,325**	**5,930**	**2,993**	**1,713**	**7,353**	**-**	**558,504**	**6,876,255**
LIABILITIES AND EQUITY									
Provisions	-	-	-	-	-	-	-	140	140
Borrowings	75,283	5,252,181	-	-	-	-	-	-	5,327,464
Interest payable	-	-	-	-	-	-	-	10,664	10,664
Trade payables	-	-	-	-	-	-	-	8,078	8,078
Other liabilities	-	-	-	-	-	-	-	119,689	119,689
Income tax payable	-	-	-	-	-	-	-	32,970	32,970
Total liabilities	**75,283**	**5,252,181**	**-**	**-**	**-**	**-**	**-**	**171,541**	**5,499,005**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,377,250**	**1,377,250**
TOTAL LIABILITIES AND EQUITY	**75,283**	**5,252,181**	**-**	**-**	**-**	**-**	**-**	**1,548,791**	**6,876,255**
Periodical GAP as at 31 December 2012	**2,223,154**	**(1,250,856)**	**5,930**	**2,993**	**1,713**	**7,353**	**-**	**(990,287)**	**-**
Cumulative GAP	**2,223,154**	**972,298**	**978,228**	**981,221**	**982,934**	**990,287**	**-**	**-**	**-**

37. RISK MANAGEMENT (Continued)

37.3.1 Market Risk (Continued)

	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	Interest non-sensible	Total
ASSETS									
Intangible assets	-	-	-	-	-	-	-	14,388	14,388
Property, plant and equipment	-	-	-	-	-	-	-	11,195	11,195
Receivables from finance lease activities	480,714	4,207,861	5,680	10,167	11,865	11,328	-	-	4,727,615
Trade receivables	-	-	-	-	-	-	-	30,358	30,358
Receivables from operating activities								5,591	5,591
Term deposits	449,956	702,726	-	-	-	-	-	-	1,152,682
Cash and cash equivalents	-	-	-	-	-	-	-	378,737	378,737
Interest receivables								70,386	70,386
Other assets and receivables	-	-	-	-	-	-	-	281,871	281,871
Deferred tax assets	-	-	-	-	-	-	-	495	495
TOTAL ASSETS	**930,670**	**4,910,587**	**5,680**	**10,167**	**11,865**	**11,328**	**-**	**793,021**	**6,673,318**
LIABILITIES AND EQUITY									
Provisions	-	-	-	-	-	-	-	332	332
Borrowings	395,013	4,831,602	-	-	-	-	-	-	5,226,615
Interest payable	-	-	-	-	-	-	-	13,356	13,356
Trade payables	-	-	-	-	-	-	-	11,761	11,761
Other liabilities	-	-	-	-	-	-	-	134,931	134,931
Income tax payable	-	-	-	-	-	-	-	24,808	24,808
Total liabilities	**395,013**	**4,831,602**	**-**	**-**	**-**	**-**	**-**	**185,188**	**5,411,803**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,261,515**	**1,261,515**
TOTAL LIABILITIES AND EQUITY	**395,013**	**4,831,602**	**-**	**-**	**-**	**-**	**-**	**1,446,703**	**6,673,318**
Periodical GAP as at 31 December 2011	**535,657**	**78,985**	**5,680**	**10,167**	**11,865**	**11,328**	**-**	**(653,682)**	**-**
Cumulative GAP	**535,657**	**614,642**	**620,322**	**630,489**	**642,354**	**653,682**	**-**	**-**	**-**

37. RISK MANAGEMENT (Continued)

37.3.1. Interest rate risk (Continued)

The total cumulative gap of up to 1 year amounts to RSD 990,287 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:

Banking Book: Interest Rate Risk – repricing gap
Company: Intesa Leasing d.o.o. Beograd

Table 1 – Interest rates changes
1 Dat e: **2** 31.12 .2012 (Report: end of the month)

		Sensitivity to change (+25 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	266.97	316.40	(30.05)	(19.38)	-	-	-
EUR	302.07	351.50	(30.05)	(19.38)	-	-	-
CHF	41.53	41.53	-	-	-	-	-
RSD	(76.62)	(76.62)	-	-	-	-	-

By changing interest rate for 0.25, the effect on incomes and expenses of the Company would be RSD 267 thousands.

37.3.1. Interest Rate Risk (Continued)

Banking Book: The sensitivity of net interest income
Company: Intesa Leasing d.o.o. Beograd
Table 2 - Sensitivity

3 Date: 31.12.2012	**4** Increase						Decrease					
	+25 b.p.			+50 b.p.			-25 b.p.			-50 b.p.		
	A vista	Term	Total	A vista	Term	Total	A vista	Term	Total	A vista	Term	Total
Intesa Leasing d.o.o. Beograd	0	(266.97)	(266.97)	-	(533.94)	(533.94)	-	266.97	266.97	-	533.94	533.94
Assets	0	2,397.44	2,397.44	-	4,794.89	4,794.89	-	(2,397.44)	(2,397.44)	-	(4,794.89)	(4,794.89)
A vista loans	0	-	-	-	-	-	-	-	-	-	-	-
Banks			-	-		-	-		-	-		-
Clients			-	-		-	-		-	-		-
Liquid securities			-			-			-			-
Other securities	0		-	-		-	-		-	-		-
Placements with Banks		366.39	366.39		732.79	732.79		(366.39)	(366.39)		(732.79)	(732.79)
Placements with Clients		2,031.05	2,031.05	-	4,062.10	4,062.10	-	(2,031.05)	(2,031.05)	-	(4,062.10)	(4,062.10)
Other Financial Receivables			-			-			-			-
Liabilities	0	2,664.41	2,664.41	-	5,328.82	5,328.82	-	(2,664.41)	(2,664.41)	-	(5,328.82)	(5,328.82)
A vista deposits	0	-	-	-	-	-	-	-	-	-	-	-
Banks			-	-		-	-		-	-		-
Clients			-	-		-	-		-	-		-
Liabilities to Banks		2,664.41	2,664.41	-	5,328.82	5,328.82	-	(2,664.41)	(2,664.41)	-	(5,328.82)	(5,328.82)
Liabilities to Clients			-	-	-	-	-	-	-	-	-	-
Securities			-			-			-			-
Other Financial Liabilities			-			-			-			-
Derivatives			-			-			-			-

37.3.2. 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 and CHF, with annuities paid in the dinar equivalent at the selling exchange rate for cash of Banca Intesa a.d. Beograd, in case of retail customers, or at the official selling exchange rate of the same bank, in case of corporate customers.

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 thousands for the position in EUR, and to CHF 100 thousands for the position in CHF.

The Company measures the foreign currency risk on a daily basis, according to the methodology of the National Bank of Serbia, through the Report on the foreign currency risk indicator.

During 2012, the Company strictly paid attention to the compliance of the foreign currency risk indicator with the prescribed limit. During 2012, this indicator was within the defined limit.

The total open foreign exchange position as at 31 December 2012 amounted to RSD 13,575 thousand, while the foreign currency risk indicator amounted to 1.08% of the equity.

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

Scenario	Effect on 2012 Income Statement	Effect on 2011 Income Statement
10% depreciation of RSD	(1,859)	(10,476)
20% depreciation of RSD	(3,719)	(20,953)

As shown above, the decline in value of RSD would result in an adverse effect on the Company's result.

37. RISK MANAGEMENT (Continued)

37.4. 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 external factors influence.

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 operative risk management is informing the management on significant operative 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.

During 2012 and 2011, 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.

In 2012, there was one operational risk event with business disruption and system crash that did not have any effect on the financial result of the Company. Also, there was one operational risk in respect of execution, delivery and process management, related to monitoring and reporting, which had no effect on the Company's result.

37. RISK MANAGEMENT (Continued)

37.5. Fair Value of Financial Assets and Liabilities

It is a policy of the Company 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 published market prices are presently not readily available. As a result of this, fair value cannot readily or reliably be determined in the absence of an active market. 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 presents financial lease assets repossessed in exchange for uncollectible receivables within statement of financial position at fair value determined based on valuations done by certified appraisers. The fair values of short-term receivables from finance lease activities, other receivables from finance lease activities, short-term financial assets, cash and cash equivalents, short-term financial liabilities and other short-term liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

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

In addition, during 2012 and 2011, the value of inventories - financial lease assets repossessed in exchange for uncollectible receivables, has been recorded at assessed market value based on a certified appraiser's assessment. In accordance with the principle of caution, losses identified by such assessments are recorded through profit and loss, while gains are recorded in the balance sheet as a liability.

38. 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, for the performance of finance lease transactions the object of which is a movable good, 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 good, the pecuniary portion of the initial capital of the lessor cannot be lower than the dinar equivalent of EUR 5,000 thousand at the official middle exchange rate as at the payment date.

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 2012, the Company's stake capital amounts to RSD 960,374 thousand (31 December 2011: 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.

In the Tax Return, and according to the regulations for preventing lower capitalization, there are no unrecognized interest expenses to related parties.

39. LEASED ASSETS INSURANCE

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, particularly with Delta Generali osiguranje a.d.o. Beograd.

On 29 July 2009 the new Agreement on business and technical cooperation between Intesa Leasing d.o.o. Beograd and Delta Generali osiguranje a.d.o. Beograd was signed, which supersedes the previously signed Agreement on business and technical cooperation dated 8 March 2006, as well as the Agreement on insurance and business cooperation for insurance practice signed on 1 November 2007 (ILB No. 2328-1).

The subject of the Agreement is business cooperation between the above mentioned companies and relates to insurance of new and used vehicles, as well as new and used equipment, for whose acquisition the Company signs contracts with lessees, retail or corporate customers, in accordance with the Company's business policy and in accordance with Delta Generali osiguranje a.d.o. Beograd business policy acts.

40. TAX ADMINISTRATION CONTROL

In 2012, the Tax Administration - Stari grad Affiliate, did not perform any inspection. During 2012 the Company was not subject to any controls by the National Bank of Serbia.

41. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

In accordance with Article 20 of the Accounting and Auditing Law, the Company performed the reconciliation procedure of receivables and payables with its debtors and creditors with the balance as of 31 December 2012, and it maintains credible documentation on the process.

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

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

42. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events subsequent to the reporting date, which would require adjustments and/or disclosures in the notes to the accompanying financial statements of the Company as of and for the year ended 31 December 2012.

Belgrade, 28 February 2013

Report prepared by:	Legal representative:
Predrag Topalović	Nebojša Janićijević