**THE LIMITED LIABILITY COMPANY
FOR FINANCE LEASE
"INTESA LEASING" d.o.o. BELGRADE**

Financial Statements as of and for the Year Ended 31 December 2017

and

Independent Auditor's Report

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This is an English translation of Independent Auditor's Report and 2017 Financial Statements originally issued in the Serbian language

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INDEPENDENT AUDITOR'S REPORT

TO THE OWNER AND THE BOARD OF DIRECTORS OF INTESA LEASING d.o.o. BELGRADE

Report on Financial Statements

We have audited the accompanying financial statements of the Limited liability company for finance lease "Intesa Leasing" d.o.o. Belgrade (hereinafter "the Company"), which comprise the balance sheet as of 31 December 2017, and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting regulations prevailing in the Republic of Serbia, based on the Law on Accounting ("RS Official Gazette", no. 62/2013), 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Law on Auditing ("RS Official Gazette", no. 62/2013) and Standards on Auditing applicable in the Republic of Serbia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 the auditor's 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with the accounting regulations prevailing in the Republic of Serbia and accounting policies disclosed in Note 3 to the financial statements.

INDEPENDENT AUDITOR'S REPORT

TO THE OWNER AND THE BOARD OF DIRECTORS
OF INTESA LEASING d.o.o. BELGRADE (Continued)

Report on Financial Statements (Continued)

Other Matters

The financial statements of the Company as of and for the year ended 31 December 2016 were audited by another auditor who expressed an unqualified opinion on those financial statements on 14 February 2017.

Report on Other Legal and Regulatory Requirements

Management of the Company is responsible for the preparation and fair presentation of the annual business report in accordance with the requirements of the Law on Accounting. Pursuant to the Law on Auditing, our responsibility is to express an opinion on the consistency of the Company's annual business report for the year ended 31 December 2017 with the audited financial statements for the same year. Our procedures in this regard were performed in accordance with the applicable Standard on Auditing 720 "The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements", and are only limited to the assessment of the consistency of financial information disclosed in the annual business report with the audited financial statements.

In our opinion, financial information disclosed in the Company's annual business report for the year ended 31 December 2017 is consistent, in all material respects, with the audited financial statements of the Company for the year ended 31 December 2017.

Belgrade, 23 February 2018

Ksenija Ristic Kostic
Certified Auditor

BALANCE SHEET
As of 31 December 2017
In RSD thousand

	Note	31 December 2017	31 December 2016
ASSETS			
Cash	15	139,066	75,128
Financial placements with banks	16	-	1,767,255
Other financial placements and derivatives	17	496,080	1,008,076
Receivables from finance lease activities	18	12,159,791	9,494,021
Repossessed leased assets and inventories	19	457,971	417,379
Intangible assets	20	11,076	8,505
Property, plant and equipment	21	6,002	8,799
Deferred tax assets	14	2,396	2,121
Other assets	22	15,228	21,416
TOTAL ASSETS		**13,287,610**	**12,802,700**
LIABILITIES AND EQUITY			
LIABILITIES			
Borrowings from banks and other financial institutions	23	12,063,027	10,906,564
Provisions	24	270	238
Current tax liabilities	14	12,299	7,426
Other liabilities	25	214,539	902,398
Total liabilities		**12,290,135**	**11,816,626**
EQUITY			
Stake capital	26	960,374	960,374
Reserves, revaluation reserves and unrealized gains	27	9,553	11,229
Retained earnings	28	27,548	14,471
Total equity		**997,475**	**986,074**
TOTAL LIABILITIES AND EQUITY		**13,287,610**	**12,802,700**

The accompanying financial statements were approved for issue on 22 February 2018 by the Company's President of the Executive Board and were signed on behalf of the Company by:

Slavko Dukic
Director of Finance, Planning and Operational Activities Sector

Privredno društvo za finansijski lizing Intesa Leasing d.o.o. Beograd
Intesa Leasing d.o.o. Beograd

Nebojsa Janicijevic
President of the Executive Board

INCOME STATEMENT
For the Year Ended 31 December 2017
In RSD thousand

	Note	2017	2016
OPERATING INCOME AND EXPENSES			
Interest income	5	464,347	421,840
Interest expenses	5	(133,235)	(176,012)
Net interest income		**331,112**	**245,828**
Fee and commission income	6	109,527	103,642
Fee and commission expenses	6	(79,417)	(66,618)
Net fee and commission income		**30,110**	**37,024**
Net gains from financial assets available for sale		-	592
Net foreign exchange (losses)/gains and effects of foreign currency clause application	7	(3,154)	876
Other operating income	8	25,187	29,204
Net impairment (loss)/gains on finance lease receivables and financial assets	9	(21,423)	25,925
Net gains from changes in value of repossessed leased assets	10	779	768
TOTAL OPERATING PROFIT		**362,611**	**340,217**
Salaries, benefits and other personal expenses	11	(102,451)	(92,661)
Depreciation and amortization	12	(6,176)	(6,169)
Other expenses	13	(61,571)	(73,728)
PROFIT BEFORE TAXATION		**192,413**	**167,659**
INCOME TAXES	14		
Current income tax		(39,611)	(30,323)
Deferred tax income		275	-
Deferred tax expense		-	(265)
PROFIT FOR THE YEAR		**153,077**	**137,071**

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the Year Ended 31 December 2017
In RSD thousand

	2017	2016
PROFIT FOR THE YEAR	**153,077**	**137,071**
Other comprehensive income		
Items that may be reclassified to profit and loss:		
Positive effects of fair value changes of financial assets available for sale	-	6,596
Unrealized losses on securities available for sale	(1,676)	-
Related tax	251	(989)
Other comprehensive (loss)/income, net of tax	**(1,425)**	**5,607**
TOTAL COMPREHENSIVE INCOME FO THE YEAR	**151,652**	**142,678**

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2017
In RSD thousand

	Stake capital	Reserves	Retained earnings	Total
Balance as of 1 January 2016	**960,374**	**4,633**	**666,787**	**1,631,794**
Positive effects of fair value changes of financial assets available for sale	-	6,596	-	6,596
Transactions with the owners of the Company				
Dividends declared	-	-	(789,387)	(789,387)
Profit for the year	-	-	137,071	137,071
Balance as of 31 December 2016	**960,374**	**11,229**	**14,471**	**986,074**
Balance as of 1 January 2017	**960,374**	**11,229**	**14,471**	**986,074**
Unrealized losses on securities available for sale	-	(1,676)	-	(1,676)
Transactions with the owners of the Company				
Dividends declared	-	-	(140,000)	(140,000)
Profit for the year	-	-	153,077	153,077
Balance as of 31 December 2017	**960,374**	**9,553**	**27,548**	**997,475**

STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2017
In RSD thousand

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	**7,562,073**	**6,497,494**
Receipts from finance lease placements	5,371,380	4,622,742
Receipts and advances received from finance lease activities	2,125,021	1,540,857
Receipts from rent and sales and other advances received	-	1,471
Other inflow from operating activities	65,672	332,424
Cash outflow from operating activities	**(10,465,644)**	**(9,079,767)**
Payment of liabilities and advances paid in respect of finance lease activities	(10,069,119)	(8,818,923)
Other payments and advances paid	(95,392)	(85,159)
Payments for salaries, benefits and other personal expenses	(105,085)	(95,291)
Income tax paid	(34,739)	(28,237)
Other public charges paid	(70,733)	(47,195)
Other outflows from operating activities	(90,576)	(4,962)
Net cash used in operating activities	**(2,903,571)**	**(2,582,273)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	**561,280**	**522,165**
Proceeds from sale of financial instruments	512,843	487,161
Other inflow from investing activities	530	-
Interests received from investing activities	47,907	35,004
Cash outflow from investing activities	**(5,547)**	**(489,993)**
Purchase of intangible assets, property, plant and equipment	(5,547)	(8,202)
Purchase of financial instruments	-	(481,791)
Net cash from investing activities	**555,733**	**32,172**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflow from financing activities	**15,167,661**	**10,627,997**
Proceeds from borrowings	15,167,661	10,627,997
Cash outflow from financing activities	**(14,517,898)**	**(7,472,194)**
Repayment of borrowings	(13,564,813)	(7,171,116)
Dividends paid	(789,387)	(125,500)
Other outflows from financing activities	(163,698)	(175,578)
Net cash from financing activities	**649,763**	**3,155,803**
Net (decrease)/increase in cash and cash equivalents	**(1,698,075)**	**605,702**
Cash and cash equivalents, beginning of the year	1,842,383	1,240,864
Foreign exchange gains on translation of cash	7,496	207
Foreign exchange losses on translation of cash	(12,738)	(4,390)
Cash and cash equivalents, end of the year (Note 36)	**139,066**	**1,842,383**

T R A N S L A T I O N

INTESA LEASING d.o.o. BELGRADE

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2017

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1. CORPORATE INFORMATION ON INTESA LEASING d.o.o. BELGRADE

The leasing company "Intesa Leasing" d.o.o. Belgrade (hereinafter "the Company") was established based on the Decision of the Commercial Court issued 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. Belgrade was registered on 16 December 2005 pursuant to the Decision no. 100536/2005 issued by the Serbian Business Registers Agency.

On 16 December 2005, pursuant to the aforementioned Decision of the Serbian Business Registers Agency, a capital increase was registered, so that total initial stake 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. Belgrade, amounted to 51%, while the stake held by the foreign owner, CIB Leasing LTD, Budapest, Hungary, amounted to 49%.

Pursuant to the Decision no. 254739/2006 of the Serbian Business Register Agency 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. Belgrade in total stake capital increased to 98.7%, while the share of the foreign founder, CIB Leasing LTD, Budapest, decreased to 1.3%.

In 2011, Banca Intesa a.d. Belgrade purchased the stake of the minority stakeholder CIB Leasing LTD, Budapest. Pursuant to the Decision no. 155596/2011 issued by the Serbian Business Registers Agency, dated 19 December 2011, the founder was changed, whereby Banca Intesa a.d. Belgrade (or the "Parent Bank") 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 ("Official Gazette of the Republic of Serbia", no. 55/2003, 61/2005, 31/2001 and 99/2011).

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

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

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

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

1. CORPORATE INFORMATION ON INTESA LEASING d.o.o. BELGRADE (Continued)

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

The Company's headquarters are in Belgrade, at Milentija Popovića 7b.

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

As of 31 December 2017 the Company had 39 employees (31 December 2016: 35 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of the Financial Statements

The Company keeps records and prepares financial statements in accordance with the Law on Accounting ("RS Official Gazette", no. 62/2013), the Law on Financial Leasing ("RS Official Gazette", no. 55/2003, 61/2005, 31/2011 and 99/2011) and other applicable legislation in the Republic of Serbia.

For recognition, measurement, presentation and disclosure of positions in financial statements the Company has, as a large legal entity, an obligation to apply International Financial Reporting Standards (IFRSs) which in the sense of the Law on Accounting includes the following: the Framework for Preparation and Presentation of Financial Statements, International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), subsequent changes of those standards and interpretations related to them, approved by the International Accounting Standards Board, which were translated and published by the ministry in charge of financial affairs.

The translation of IFRSs approved and published by the Ministry of Finance consists of basic IAS and IFRS texts issued by the International Accounting Standards Board, of interpretations issued by the International Financial Reporting Interpretations Committee in the form in which they are issued and it does not include bases for making conclusions, illustrative examples, directives, comments, adverse opinions, elaborated examples and other additional explanatory materials that can be adopted related to standards, i.e. interpretations, except if it is explicitly cited that it is an integral part of a standard, i.e. interpretation.

The IFRS translation is adopted by the Decision of the Ministry of Finance on Defining the Translation of Conceptual Framework for Financial Reporting and Basic International Accounting Standards and International Financial Reporting Standards Texts, no. 401-00-896/2014-16 of 13 March 2014, published in "RS Official Gazette" no. 35 on 27 March 2014. The mentioned translation of IFRS has been applied since the preparation of the financial statements as of 31 December 2014. Changed or issued IFRS and their interpretations, after this date, have not been translated and published in the Republic of Serbia, therefore they are not applicable to the preparation of the accompanying financial statements.

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

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

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

With respect to the above mentioned and the fact that certain laws and subordinate legislation define accounting treatments, which in some cases differ from IFRS requirements, accounting regulations of the Republic of Serbia can differ from IFRS requirements which can influence the fairness and objectivity of the accompanying financial statements. Therefore, the accompanying financial statement cannot be considered as financial statements fully prepared in accordance with IFRSs in the way defined by the provisions of IAS 1 “Presentation of Financial Statements”.

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

The accompanying financial statements have been prepared under the historical cost concept, 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 RSD thousand unless otherwise indicated. The Dinar (RSD) is the functional and official reporting currency of the Company. All transactions in currencies other than the functional currency are being treated as transactions in foreign currencies.

The accompanying financial statements of the Company for the year ended 31 December 2017 were approved for issue by the President of the Executive Board on 22 February 2018.

2.2. Comparative Data

The comparative data represent audited annual financial statements of the Company for the year ended 31 December 2016, which were prepared in accordance with the accounting regulations applicable in the Republic of Serbia.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Income and Expense Recognition

(a) Interest Income and Expenses

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

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 court.

(b) Fee Income

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

(c) Fee and Commission Expenses

Fees and commission expenses comprise bank charges for payment and settlement transactions and other banking services and are recognized in the 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

The items included in the Company's financial statements are measured using the currency of the Company's primary economic environment (functional currency). As disclosed in Note 2.1, the financial statements are presented in RSD thousand, which represents the functional and official reporting currency of the Company.

Foreign currency transactions occurred during the reporting period are translated into RSD 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 applying the exchange rate prevailing at the balance sheet date.

Foreign exchange gains and losses arising from translation of assets and liabilities denominated in foreign currencies and from business transactions in a foreign currency are reported in the Company's income statement as foreign exchange gains/losses and effects of foreign currency clause application (Note 7).

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Foreign Currency Translation (Continued)

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

In RSD

Currency	31 December 2017	31 December 2016
CHF	101.2847	114.8473
EUR	118.4727	123.4723

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:

In RSD

Exchange rate description	Exchange rates for the contracted foreign currency clause - EUR		Exchange rates for the contracted foreign currency clause - CHF	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Selling exchange rate for foreign currencies of Banca Intesa	121.4345	126.5591	106.3489	120.5897
Selling exchange rate for cash of Banca Intesa	120.8422	125.9472	106.3489	120.5897
Median exchange rate of the NBS	118.4727	123.4723	101.2847	114.8473
Selling exchange rate for foreign currencies of the NBS	118.8281	123.8427	-	-
Selling exchange rate for cash of the NBS	119.3020	124.3366	-	-

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

Investments and liabilities related to basic contracts which are bound to a foreign currency clause or some other variable, are revalued in accordance with contractual clauses. Income and expenses resulting from the application of the foreign currency clause are recorded within foreign exchange gains/losses and effects of foreign currency clause application.

During 2017 the Company performed the translation of receivables from finance lease activities by applying the contractual exchange rates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Cash

Cash is presented in the balance sheet and comprises RSD cash balances held in accounts with banks. Cash is measured at amortized cost in the balance sheet.

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

3.4. Financial Placements with Banks

Financial placements held with banks comprise:

- foreign currency accounts; and
- term deposits with banks.

Term deposits are initially measured at fair value. After initial recognition, they are recorded at amortized cost using the effective interest rate method.

In cases when the Company makes agreements on short-term deposits with a foreign currency clause or on foreign currency deposits, after the initial recognition the effects of foreign currency clause application, as well as foreign exchange gains or losses, are calculated and recognized in the income statement within foreign exchange gains/losses and effects of foreign currency clause application.

3.5. Other Financial Placements and Derivatives

Short-term financial assets are investments in securities and are related to securities available for sale. Initially, they are measured at fair value, plus transactions costs, that are directly attributable to the acquisition or issuance of the financial asset.

After the initial recognition, financial assets available for sale are measured at fair value. The Company determines the fair value of securities and records the difference between the fair value and the carrying value as unrealized gains or losses from securities under the item “Reserves” (Note 27).

As of 31 December 2017 the Company did not have financial derivatives.

3.6. Receivables from Finance Lease Activities

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

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

Gross investment in the lease is the aggregate sum of the minimum lease payments by the lessor under a finance lease, and any unguaranteed residual value accruing to the benefit of lessor. Net investment in the lease is the gross investment in the lease less unearned finance income that is calculated using the interest rate defined in the finance lease agreement. Unearned finance income is the difference between gross and net investment in leases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Receivables from Finance Lease Activities (Continued)

The interest rate which is contained in the lease is the discount rate which at the beginning of the lease term causes the total sum of the present value of the minimum lease payments and unguaranteed residual value to be equal to the sum of the fair value of the asset that is the subject of the lease and all the initial expenses of finance lease.

Finance lease receivables recognized in the balance sheet as receivables from finance 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 as Receivables from finance lease activities (Note 18).

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

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

Other receivables from finance lease comprise:
- Fees;
- Interest;
- Costs transferred to lessee; and
- Warnings.

The Company estimates impairment losses of finance lease receivables in accordance with the “Asset Classification Policy”.

Income from the reversal of impairment losses arising from subsequent recoveries and estimated collectability of receivables is recognized in the income statement.

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

3.7. Impairment of Financial Assets

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

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

The methodology for calculation of the allowances for impairment of financial assets is defined by the Company’s “Assets Classification Policy”. The Assets Classification Policy was modified on 29 December 2017 and applied during the calculation of impairment of receivables as of 31 December 2017.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Impairment of Financial Assets (Continued)

The Company classifies its risk-weighted assets according to the Harmonized ISBD Asset Classification Methodology and the International Financial Reporting Standards. Classified risky assets are related to credit exposure from the balance sheet.

Receivables classification criteria are as follows:

a) Arrears – the objective debtor classification criterion is a delay in liabilities' settlement. The subjective classification criteria include all other information that may indicate that it is unlikely that the client will fully settle their contractual obligations;
b) Economic group; and
c) Contamination rule.

The asset classification is based on objective and subjective criteria explained in the Asset Classification Policy. A collateral or a guarantee established as a security cannot affect a client class, but only a level of calculated provisions.

Accounts receivable are classified under one of the following categories:

A) Non-performing receivables:

- Doubtful – The classification needs to be based on the lessee assessment criteria which comply with the definition of lessees as truly insolvent.
- Unlikely to pay – This category is the result of a Company's estimate indicating that it is unlikely that the lessee will fully settle their obligations (in terms of principal and/or interest repayment) without resorting to actions such as payment collection from collateral proceeds.
- Past due - the client is faced with temporary problems (arrears past due by 90 days), which may be overcome, and debtor classification criteria are not met as in the case of the Unlikely to pay or Doubtful categories. The total debtor exposure will be classified under the Past due category if the amount of the due debt exceeds 5% of the total debt on the day of the provisions calculation.

B) Performing receivables:

All clients that are not classified under one of the non-performing categories and that regularly settle their liabilities towards the Company are classified under this category.

Provisions for potential losses are calculated on the basis of the internal model, whereas provision expenses are charged to the balance sheet. Provisions for potential losses include:

- Collective provisions for all *performing* exposures, non-performing exposures whose total exposure is less than EUR 250.000; and
- Individual provisions for *non-performing* exposures with the total exposure higher than EUR 250.000.

A collective estimate is based on the expected likelihood of liabilities' non-settlement (PD - *Probability of Default*) and a loss in case of liabilities' non-settlement (LGD - *Loss Given Default*).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Impairment of Financial Assets (Continued)

Probability of Default (PD) is the probability that a performing receivable/debtor will become *default*.

Internal rating and appropriate PD values, which are calculated in compliance with the procedures and rules of the Parent Bank - Banca Intesa a.d. Belgrade, are taken from the Risk Management Department.

PD translation for natural persons, which is calculated in accordance with the procedures and rules, is taken from the Risk Management Department of Banca Intesa a.d. Belgrade for the product group – consumer loans.

The LGD parameter is calculated by the Risk Management Department of Banca Intesa a.d. Belgrade on the basis of an analysis of historical data, separately for homogenous portfolio segments.

The loss rate in case of non-settlement (LGD) is determined separately for receivables (a portion of receivables) covered with a collateral and the receivables that are not covered with a collateral.

During the calculation of receivables for credit losses, PD and LGD are applied to the base (EAD – *Exposure at Default*) by decreasing gross exposure by:

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

The following PD is used for legal entities and groups of legal entities that do not have a rating:

- For intercompany clients - 0%;
- For banks whose status is *performing* – 0.2%;
- For local self-government units (sector 51, 52, 53, 54, 55, 56) PD rating of class A3 LC&SME; and
- For other clients that do not have 100% determined PD – average PD.

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

The carrying value of the assets is reduced by the use of an allowance account and the loss from impairment of financial assets is recorded in the income statement as net impairment loss on finance lease receivables (Note 9).

If there is a decrease in the recognized loss from impairment during the next period, which arises as a consequence of an event occurring after the recognition of the impairment loss, the previously recognized impairment loss will be reduced by adjusting the allowance account and amount of the reversal will be recorded in the income statements as gains from reversal of impairment losses on finance lease receivables (Note 9).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Repossessed Leased Assets and Inventories

(a) Repossessed Leased Assets

In a situation of early termination of the finance lease contract, the leased asset will be repossessed, and the value of financial investments and receivables will be transferred to the accounts group Repossessed leased assets and inventories at the lower of two values: fair value or carrying 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 lease asset are taken into consideration. Subsequent measurement of lease assets that are acquired for uncollected receivables are stated at the lower of the two values mentioned above.

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

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

(b) Inventories

Inventories of the Company comprise:

- -material used in the process of rendering of services;
- -advances given for leased assets; and
- -other advances.

Inventories are initially recorded at historical cost. After the initial recognition, inventories are measured at the lower of cost and net realizable value.

The value of repossessed leased assets is stated in the balance sheet at fair value, which is based on the assessment of authorized appraisers. The fair value of other receivables based on finance lease, other financial placements, cash, financial liabilities and other liabilities approximates their carrying value, mostly due to short-term maturities of these financial instruments.

In addition, during 2017 and 2016 the value of inventories of repossessed leased assets was recorded at an estimated value that is based on valuation of authorized appraiser. Losses after such assessment are recorded in the income statement, and gains within off-balance sheet items in accordance with the principle of prudence.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Intangible Assets

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

Subsequent to the 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 for intangible assets is 20%. During 2017, there were no changes in depreciation rates, in comparison to the previous period.

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net selling price and the net book (carrying) value of the intangible asset, and are recognized in the income statement at the moment of derecognition.

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

3.10. Property, Plant and Equipment

Property, plant and equipment of the Company as of 31 December 2017 comprise equipment.

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

Purchase value consists of the invoiced value increased by all directly attributable costs of bringing the assets to the location and condition necessary for its intended use.

The subsequent investments are included in the cost of an item of property, plant and or recognized as a separate asset, if, and only if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying (net book) value of a replaced asset is derecognised. All other repair and maintenance costs are debited to the income statement of the period in which they are 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 (carrying) value of the asset, and are included in the income statements as gains (Note 8) or losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Property. Plant and Equipment (Continued)

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

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

Annual depreciation rates in use are as follows:

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

The estimated useful life of assets is reviewed periodically and adjusted if necessary at each reporting date. Changes in expected useful lives of assets are accounted for as changes in accounting estimates. During 2017 there were no changes in depreciation rates comparing to the previous period.

The calculation of the depreciation and amortization for tax purposes is determined by the Corporate Income Tax Law ("RS Official Gazette" no. 25/2001, 80/2002, 43/2003, 84/2004, 18/2010, 101/2011, 119/2012, 47/13, 108/2013, 68/2014, 142/2014, 91/2015, 112/2015 and 113/2017) and the Rules on the Manner of Fixed Assets Classification into Groups and Depreciation for Tax Purposes ("RS Official Gazette". no. 116/2004 and 99/2010). Different depreciation methods used for financial reporting purposes and for tax purposes give rise to deferred taxes (Note 14).

3.11. Impairment of Non-financial Assets

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

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

Non-financial assets (except goodwill which is not subject of reversal of the impairment) that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Borrowings from Banks and Other Financial Institutions

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

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

3.13. Provisions

Provisions are recognized when:

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

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

When the outflow of the economic benefits is no longer probable for the purpose of settling legal or constructive liabilities, provisions are derecognized in income. The provision is monitored by type and it can only be used for expenditures for which it was initially recognized. Provisions are not recognized for future losses.

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

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

In accordance with the General Collective Agreement (“RS Official Gazette”, no. 50/2008, 104/2008 – Annex I and 8/2009 – Annex II) and the Labor Law (Article 92) (“RS Official Gazette”, no. 74/2014), the Company is obliged to pay to an employee severance pay in the amount of two average salaries in the Republic of Serbia, according to the latest data of the authority in charge of statistics.

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

Provisions for such fees and related expenses are recognized in the amount of the present value of expected 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 net 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Provisions (Continued)

Provisions for litigations 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 small number of litigations stemming from its daily operations. The Company regularly assesses the likelihood of negative outcomes of these litigations, as well as ranges of probable and reasonable estimated losses. Reasonable estimates involve judgments made by management after considering information including notifications, settlements, estimates performed by the legal department, available facts, identification of other potentially responsible parties and their ability to contribute, and prior experience.

A provision for litigations is recognized when it is probable that a liability, whose amount can be reliably estimated by due analysis, exists. The required provision could be changed in the future due to new events or additional information.

The Managing Board of the Company adopted the Change in Accounting Policies, Article 17 - Long-term Provisions, in November 2014. With this change, rules related to provisions for litigations against the Company when there is a probability that they will be lost are more precisely defined. This change of accounting policies has no effects on financial statements since the Company did not have provisions for litigations as of 31 December 2016 or 31 December 2017.

3.14. Contingent Liabilities and Contingent Assets

Contingent liabilities are not disclosed in the financial statements and instead are only disclosed in the notes to the financial statements (Note 29(b) and (c)), unless the possibility of outflow of resources embodying economic benefits is small.

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

3.15. Employee Benefits

(a) Employee Taxes and Contributions for Social Security

In accordance with the regulations prevailing in the Republic of Serbia, the Company has an obligation to pay tax and contributions to various state social security funds. These obligations include the payment of contributions on behalf of the employee (by the employer) and on behalf of the employer in an amount calculated by applying the legally-prescribed rates.

The Company is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds. The Company has no legal obligation to pay further benefits due to its employees by the Pension Fund of the Republic of Serbia upon their retirement.

Taxes and contributions paid by the employees are charged to the expenses in the period when they were incurred (Note 11).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15. Employee Benefits (Continued)

(b) Other Employee Benefits - Retirement Benefits

The defined benefit liability comprises the present value of the defined benefit obligation less past service cost and actuarial losses, and increased by actuarial gains not yet recognized (*see* Note 3.13).

(c) Short-Term Compensated Absences

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

An employee can use his vacation only with the employer where he realized the right to have vacations, and in case that he/she does not use his/her vacation completely or partly, he/she has the right to get compensation according to the Labor Law ("RS Official Gazette" no. 24/2005, 61/2005, 54/2009, 32/2013 and 75/2014).

The employer with whom the employee's employment is terminated and has unused vacation days is under obligation to pay the compensation. The use of vacation is possible at once or in several parts, but with first part lasting at least two weeks.

The Company has neither pension funds nor share-based remuneration options; consequently there are no identified obligations in that respect as of 31 December 2017.

3.16. Income Taxes

Current Income Tax

Current income tax is calculated and paid in accordance with the effective Corporate Income Tax Law ("RS Official Gazette", no. 25/2001, 80/2002, 43/2003, 84/2004, 18/2010, 101/2011, 119/2012, 47/13, 108/2013, 68/2014, 142/2014, 91/2015, 112/2015 and113/2017) and by-laws.

Income tax is payable at the rate of 15% on the tax base reported in the annual corporate income tax return, and can be reduced by any applicable tax credits. The tax base includes taxable profit, determined by adjusting the taxpayer's result (profit or loss) reported in the income statement, in the manner prescribed by this Law.

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

The tax regulations in the Republic of Serbia do not envisage that any tax losses of the current period can be used to recover taxes paid within a specific previous period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16. Income Taxes (Continued)

Deferred Income Tax

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

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

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

However, for taxable temporary differences associated with investments in subsidiaries, branches, associates and joint ventures, deferred tax liability is recognized in accordance with paragraph 39 of IAS 12 "Income Taxes".

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period of realizing a tax deduction or when a deferred tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at or after the reporting date. Tax rate used for calculation of deferred income tax assets in 2017 is 15%, the same as the rate used in the previous year.

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

Current Tax Assets/Liabilities

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

The Company has presented data on current tax liability for 2017 and 2016 in Note 14.

Taxes and Contributions Not Related to Operating Result

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

3.17. Other Liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18. Related Party Disclosures

For the purpose of these financial statements related parties 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 disclosed separately in the notes to the financial statements (Note 30).

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

Use of Estimates

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

These estimations and related assumptions are based on the information available as of 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 income statement of the periods in which they become known.

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

Impairment of Financial Assets

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

In the process of determining whether an impairment loss should be recognized in the income statement, the Company makes judgments as to whether there is reliable evidence to show a measurable decrease in the estimated future cash flows from a lease portfolio of before the decrease that can be identified on the level of individual leasing placements in the portfolio. This evidence may include observable data which indicate an adverse change in terms of features and the ability of the debtor to regularly settle obligations toward the Company.

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

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

Useful Lives of Intangible Assets and Property, Plant and Equipment

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

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

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

The Company's management reviews the carrying amounts of the Company's intangible assets, property, plant and equipment, as well as of the repossessed leased assets and inventories presented in the financial statements at each reporting date.

If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

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

The Company's management considers that there is no significant deviation in the carrying value of assets from the fair value that would have an impact on the financial statements.

Deferred Tax Assets

Deferred tax assets are recognized for all unused tax credits to the extent to which taxable profit will be available against which the unused tax credits can be utilized.

Significant estimate of the management is necessary to determine the amount of deferred tax assets which can be recognized, based on the period in which it was created and the amount of future taxable profits and the tax policy planning strategy (Note 14(c)).

Retirement Benefits

The costs of defined employee benefits payable upon the termination of employment, i.e. retirement, in accordance with the legal requirements are determined based on the actuarial valuation. The actuarial valuation includes an assessment of the discount rate, future movements in salaries, mortality rates and fluctuations in the number of employees.

As these plans are long-term ones, significant uncertainties influence the outcome of the assessment. Additional information is disclosed in Note 24.

5. INTEREST INCOME AND EXPENSES

	2017	2016
Interest income		
Interest income from finance lease activities – new leased assets	405,754	361,160
Penalty interest	7,756	8,761
Interest income on securities	47,168	48,304
Interest income on placements with banks	3,669	3,615
Total	**464,347**	**421,840**
Interest expenses		
Interest expenses on other borrowings from abroad	(92,267)	(108,364)
Interest expenses on borrowings from related parties in the country	(40,968)	(67,648)
Total	**(133,235)**	**(176,012)**
Net interest income	**331,112**	**245,828**

In accordance with paragraph AG93, IAS 39 “Financial Instruments: Recognition and Measurement”, the Company has calculated interest income on impaired financial assets, which amounted to RSD 1,254 thousand in 2017 (2016: RSD 1,263 thousand). Considering that the calculated income is not materially significant, the Company did not record it.

6. FEE AND COMMISSION INCOME AND EXPENSES

	2017	2016
Fee and commission income		
Income from delivering services – finance lease origination fees	38,395	41,330
Income from warnings	8,471	8,727
Intercalary interest income	24,037	21,070
Income from costs transferred to lessees	38,624	32,515
Total	**109,527**	**103,642**
Fee and commission expenses		
Insurance for leased assets	(22,751)	(21,962)
Expenses from placement of leasing assets	(2,479)	(4,744)
Expenses from repossessing leased assets	(4,850)	(2,050)
Registration fees of lease agreements	(8,541)	(7,010)
Expenses from loan guarantees	(9,530)	(13,041)
Fees for loans received	(27,968)	(16,071)
Other expenses from finance lease activities	(3,298)	(1,740)
Total	**(79,417)**	**(66,618)**
Net fee and commission income	**30,110**	**37,024**

Fee and commission expenses include costs related to finance lease activities that are transferred to lessees in the amount of RSD 38,594 thousand for 2017 and RSD 32,272 thousand for 2016.

7. NET FOREIGN EXCHANGE (LOSSES)/GAINS AND EFFECTS OF FOREIGN CURRENCY CLAUSE APPLICATION

	2017	2016
Gains		
Gains from foreign currency clause application	193,308	187,782
Foreign exchange gains	341,198	48,303
Total	**534,506**	**236,085**
Losses		
Losses foreign currency clause application	(470,007)	(108,152)
Foreign exchange loses	(67,653)	(127,057)
Total	**(537,660)**	**(235,209)**
Net (losses)/gains	**(3,154)**	**876**

8. OTHER OPERATING INCOME

	2017	2016
Income from marketing activities	7,463	7,550
Income from the collection of written-off receivables	4,438	225
Gains on sale of fixed assets	-	3,138
Income from reduction of VAT liabilities on court proceeding termination	2,165	4,522
Income from insurance brokerage	10,285	2,711
Other operating income	836	11,058
Total	**25,187**	**29,204**

9. NET IMPAIRMENT (LOSS)/GAINS ON FINANCE LEASE RECEIVABLES AND FINANCIAL ASSETS

	2017	2016
Net (impairment loss)/reversal of impairment on long-term receivables overdue more than 60 days	(12,224)	3,648
Net (impairment loss)/reversal of impairment decrease on long-term receivables overdue up to 60 days and future receivables from finance lease activities	(8,739)	22,658
Net impairment loss on short-term receivables overdue more than 60 days	(932)	(186)
Net reversal of impairment/(impairment loss) on short-term receivables overdue up to 60 days	472	(195)
Net (loss)/gains	**(21,423)**	**25,925**

10. NET GAINS FROM CHANGES IN VALUE OF REPOSSESSED LEASED ASSETS

	2017	2016
Impairment provision of repossessed leased assets after sale	-	(25)
Reversal of impairment provision on repossessed leased assets	779	793
Total	**779**	**768**

11. SALARIES, BENEFITS AND OTHER PERSONAL EXPENSES

	2017	2016
Gross salaries	77,088	72,196
Cost of accrued bonuses	8,500	7,108
Payroll taxes and contributions	12,841	11,977
Other personal expenses	3,990	1,369
Provision for retirement benefits (Note 24)	32	11
Total	**102,451**	**92,661**

12. DEPRECIATION AND AMORTIZATION

	2017	2016
Amortization of intangible assets (Note 20)	2,976	3,011
Depreciation of property, plant and equipment (Note 21)	3,200	3,158
Total	**6,176**	**6,169**

13. OTHER EXPENSES

	2017	2016
Maintenance costs	12,152	11,318
Advertisement costs	429	1,994
Consulting services (a)	13,345	11,644
Rental expenses (b)	5,943	7,310
Bank charges	999	801
Representation costs	1,648	2,673
Youth and student association services	3,990	5,776
Fuel	2,454	2,376
Legal services	1,634	2,487
Transportation and postal service	2,956	2,492
Costs of material	2,647	2,442
Professional development and literature	1,376	1,906
Spare parts and tools	969	1,165
Audit services	1,981	3,770
Membership fees	1,085	842
Insurance premiums	791	733
Translation services and similar services	155	123
Tax expenses (c)	1,434	6,627
Litigation expenses	1,413	1,767
Direct write-off of receivables	476	-
Costs of other services	3,694	5,482
Total	**61,571**	**73,728**

(a) Cost of consulting services in the current year were higher compared to the previous year primarily due the increase in expenses arising from the "*Service Level Agreement*" (SLA) with Banca Intesa a.d. Belgrade due to the increased level of services, which in 2017 amounted to RSD 12,641 thousand (2016: RSD 10,973 thousand).

(b) Rental costs are lower in the current year due to the fact that since March 2017 the Company has been paying the rent for business premises in Belgrade according to a new lease agreement due to the address change of the Company's head office.

(c) Tax expenses in the previous year is significantly higher compared to the current year since in 2016 the Company reported under expenses changes in the tax base in the amount of RSD 6,117 thousand, due to the general obsolescence of these receivables and because the client does not have an authorized person who can authorize change in the tax base.

14. INCOME TAXES

(a) Components of Income Taxes

Components of income tax expense are:

	2017	2016
Current tax expense	39,611	30,323
Deferred tax expense	-	265
Deferred tax income	(275)	-
Total income tax expense	**39,336**	**30,588**

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

Reconciliation between income tax expense 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 2017 and 2016 is presented below:

	2017	2016
Profit before tax	**192,413**	**167,659**
Income tax at statutory rate of 15%	**28,862**	**25,149**
Non-deductible expenses	440	333
Non-deductible impairment of receivables	17,941	13,348
Interest income on securities issued by the Republic of Serbia – income adjustment	(7,075)	(7,246)
Impairment of assets not recognized for tax purposes	23	-
Income adjustment for previously unrecognized tax expense	(580)	(1,261)
Total current income tax	**39,611**	**30,323**
Deferred tax expense	-	265
Deferred tax income	(275)	-
Total income taxes reported in the income statement	**39,336**	**30,588**
Effective tax rate	***20.44%***	***18.24%***

14. INCOME TAXES (Continued)

(c) Deferred Tax Assets

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

	2017	2016
Balance as of 1 January	**2,121**	**2,386**
Effects of temporary differences credited/(charged) to the income statement	275	(265)
Balance as of 31 December	**2,396**	**2,121**

The following table represents the basis for recognizing deferred tax income/(expense) and the effects on the income statements for the years ended 31 December 2017 and 2016, respectively:

	Deferred tax assets 2017	Income statement 2017	Deferred tax assets 2016	Income statement 2016
Temporary differences between the carrying amount of equipment and intangible assets and their tax base	2,355	270	2,085	(267)
Temporary differences arising from provisions in accordance with IAS 19 "Employee Benefits"	41	5	36	2
Total	**2,396**	**275**	**2,121**	**(265)**

(d) Current Tax Liabilities

	2017	2016
Balance as of 31 December	**(12,299)**	**(7,426)**

Current tax liability results as the difference between the calculated tax expense for 2017 and the advance tax payments on profits in 2017.

15. CASH

	2017	2016
Current accounts in RSD	139,066	75,128
Balance as of 31 December	**139,066**	**75,128**

During 2017 and 2016 the Company performed payment and settlement transactions in domestic and foreign currency through its accounts held with Banca Intesa a.d. Belgrade.

16. FINANCIAL PLACEMENTS WITH BANKS

	2017	2016
Foreign currency accounts	-	1,767,255
Balance as of 31 December	**-**	**1,767,255**

As of 31 December 2017 the Company did not have financial placements held with banks. Financial placements as of 31 December 2016 are related to the foreign currency account balance.

17. OTHER FINANCIAL PLACEMENTS AND DERIVATIVES

Other financial placements and derivatives relate to purchased securities that are classified as securities available for sale. A comparative review of financial placements as of 31 December 2017 and 2016 is presented below:

Description of financial placement	Market value 31 December 2017	Maturity of financial placements	Interest rate achieved during purchase
Government bonds of the Republic of Serbia	496,080	February 2019	5,00% annually
Total	**496,080**		

Description of financial placement	Market value 31 December 2016	Maturity of financial placements	Interest rate achieved during purchase
Government bonds of the Republic of Serbia	496,773	February 2019	5,00% annually
Government bonds of the Republic of Serbia	511,303	December 2017	4,95% annually
Total	**1,008,076**		

18. RECEIVABLES FROM FINANCE LEASE ACTIVITIES

The structure of receivables from finance lease activities are presented below:

	2017	2016
Overdue finance lease receivables	323,911	316,450
Finance lease receivables with maturity up to 1 year	3,927,214	3,143,444
Finance lease receivables with maturity from 1 to 5 years	7,923,420	6,197,943
Finance lease receivables with maturity over 5 years	400,713	256,185
Total finance lease placements	**12,575,258**	**9,914,022**
Short-term receivables	19,808	20,542
Accrued interest income on finance lease receivables	21,490	19,398
Deferred income – finance lease origination fees	(84,566)	(67,709)
Total finance lease receivables	**12,531,990**	**9,886,253**
Less:		
Allowance for impairment - overdue receivables	(212,026)	(235,860)
Allowance for impairment – Finance lease receivables with maturity up to 1 year	(48,551)	(55,857)
Allowance for impairment – Finance lease receivables with maturity from 1 up to 5 years	(99,195)	(88,128)
Allowance for impairment – Finance lease receivables with maturity over 5 years	(4,528)	(3,301)
Allowance for impairment of other receivables	(7,899)	(9,086)
	(372,199)	**(392,232)**
Balance as of 31 December	**12,159,791**	**9,494,021**

The Company's finance lease placements amount to RSD 12,575,258 thousand as of 31 December 2017 and have increased by 26.84% compared to the previous year (31 December 2016: RSD 9,914,022 thousand). Other receivables from finance lease are receivables for finance lease origination fees, recharged expenses, penalty interest, warnings and compound interest.

Accrued interest income on finance lease receivables relates to interest accrued as of 31 December 2017 with respect to all finance lease contracts with annuity maturing in the following year, i.e. representing the portion of interest income for the period of last annuity in the reporting period and end of the reporting period.

Deferred income – finance lease origination fees are a deductible item from receivables for finance lease activities in the amount of RSD 84,566 thousand for 2017 and RSD 67,709 thousand for 2016.

18. RECEIVABLES FROM FINANCE LEASE ACTIVITIES (Continued)

(a) The present and future value of minimal lease receivables, without accrued interest income and deferred origination fees as of **31 December 2017** are presented in the table below:

	Carrying value	Unearned income	Gross receivables
Up to 1 year	4,251,125	353,754	4,604,879
From 1 to 5 years	7,923,420	498,921	8,422,341
Over 5 years	400,713	25,925	426,638
Total	**12,575,258**	**878,600**	**13,453,858**

The present and future value of minimal lease receivables, without accrued interest income and deferred origination fees as of **31 December 2016** are presented in the table below:

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

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

	2017	2016
Balance as of 1 January	**(392,232)**	**(442,641)**
Allowances for impairment – increase	(30,459)	(104,396)
Allowances for impairment - decrease	8,187	130,321
Write-off of receivables - decrease	28,447	26,490
Foreign exchange differences - increase	(71)	(4,705)
Foreign exchange differences - decrease	13,929	2,699
Balance as of 31 December	**(372,199)**	**(392,232)**

18. RECEIVABLES FROM FINANCE LEASE ACTIVITIES (Continued)

(c) In 2017 finance lease agreements were concluded for periods of up to 10 years. Economic benefits and risks are transferred to the lessee pursuant to the finance lease agreements. In accordance with the agreements, ownership is transferred to the lessee upon repayment of all the contracted instalments. In 2017 the average lease origination fee amounted to 0.51% of the gross cost of the leased asset (2016: 0.57%).

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 2016 vary in the following ranges:

	From	To
Finance lease receivables in EUR	1.50%	6.44%
Finance lease receivables in RSD	5.46%	7.99%

The average rate of the clients' participation in accordance with the lease agreements in 2017 amounted to 15.31% of the net cost of the leased asset (2016: 15.29%).

19. REPOSSESSED LEASED ASSETS AND INVENTORIES

	2017	2016
Other assets repossessed in exchange for uncollectible receivables	597	210
Advances paid - other	293	709
Advances paid for purchase of finance lease assets	443,758	413,972
Finance lease assets repossessed in exchange for uncollectible receivables	13,323	2,488
Balance as of 31 December	**457,971**	**417,379**

As of 31 December 2017 finance lease assets repossessed in exchange for uncollectible receivables amounting RSD 13,323 thousand are intended to be reactivated through finance lease agreements or for further reselling. The repossessed finance lease assets relate to eight finance lease agreements.

Advances paid for purchase of finance lease assets relate to twenty finance lease agreements with planned activation in 2018.

20. INTANGIBLE ASSETS

	Licenses and software	Intangible assets under development	TOTAL
COST			
Balance as of 1 January 2016	**24,084**	**3,054**	**27,138**
Additions during the year - new purchases	1,478	1,180	2,658
Transfer (from)/to	4,172	(4,172)	-
Balance as of 31 December 2016	**29,734**	**62**	**29,796**
Additions during the year - new purchases	5,035	512	5,547
Disposals	(11)	-	(11)
Balance as of 31 December 2017	**34,758**	**574**	**35,332**
ACCUMULATED AMORTIZATION			
Balance as of 1 January 2016	**18,280**	**-**	**18,280**
Amortization charge (Note 12)	3,011	-	3,011
Balance as of 31 December 2016	**21,291**	**-**	**21,291**
Amortization charge (Note 12)	2,976	-	2,976
Disposals	(11)	-	(11)
Balance as of 31 December 2017	**24,256**	**-**	**24,256**
NET BOOK VALUE OF:			
- 31 December 2017	**10,502**	**574**	**11,076**
- 31 December 2016	**8,443**	**62**	**8,505**

In 2017 the upgrade of the information system “Nova” was extended with the upgrade of the existing modules and three new licenses, as well as investment in intangible assets in preparation for one new processes. The overall increase in licenses and software with respect to these items amounted to RSD 5,547 thousand.

The Company’s management estimates that there are no indications that intangible assets are impaired as of 31 December 2017.

21. PROPERTY, PLANT AND EQUIPMENT

	Vehicles	Furniture	Other equipment	TOTAL
COST				
Balance as of 1 January 2016	**21,171**	**2,867**	**3,654**	**27,692**
Additions during the year – new purchases	5,298	-	246	5,544
Disposals	(6,941)	-	-	(6,941)
Balance as of 31 December 2016	**19,528**	**2,867**	**3,900**	**26,295**
Additions during the year – equipment in preparation	-	-	403	403
Disposals	-	(1,978)	(1,927)	(3,905)
Balance as of 31 December 2017	**19,528**	**889**	**2,376**	**22,793**
ACCUMULATED DEPRECIATION				
Balance as of 1 January 2016	**16,493**	**2,447**	**2,340**	**21,280**
Depreciation charge (Note 12)	2,531	179	448	3,158
Disposals	(6,942)	-	-	(6,942)
Balance as of 31 December 2016	**12,082**	**2,626**	**2,788**	**17,496**
Depreciation charge (Note 12)	2,700	117	383	3,200
Disposals	-	(1,978)	(1,927)	(3,905)
Balance as of 31 December 2017	**14,782**	**765**	**1,244**	**16,791**
NET BOOK VALUE AS OF:				
- 31 December 2017	**4,746**	**124**	**1,132**	**6,002**
- 31 December 2016	**7,446**	**241**	**1,112**	**8,799**

During 2017 the Company acquired computer equipment for regular operations.

The Company has no restrictions on ownership of equipment as of 31 December 2017, nor has any item of equipment been pledged as a collateral.

The Company’s management estimates that there are no indications that the value of the equipment is impaired as of 31 December 2017.

22. OTHER ASSETS

	2017	2016
Interest receivable on term deposits	483	76
Receivables for expenses subject to refunding (Note 30(b))	2,586	808
Receivables for changes in tax base	977	582
Other accruals	2,921	13,435
Prepaid expenses	3,486	1,107
Receivables on sale of leased assets	165	1,323
Receivables for subsidized interest of suppliers of leased assets	-	943
Other assets	4,610	3,142
Balance as of 31 December	**15,228**	**21,416**

Decrease in other accruals in 2017 results from a significantly lower amount of the past tax not used in the current period, which amounted to RSD 2,374 thousand as of 31 December 2017, while the outstanding balance as of 31 December 2016 amounted to RSD 11,199 thousand.

Other receivables as of 31 December 2017 mostly relate to receivables for marketing activities under business cooperation contracts with insurance companies in the amount of RSD 1,821 thousand and receivables for the insurance representation with regard to leased assets in the amount of RSD 1,013 thousand.

23. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2017	2016
Short-term borrowings in the country	2,382,065	3,536,129
Interest payable on borrowings in the country	2,305	7,423
Portion of long-term borrowings with maturity up to 1 year in the country	231,442	271,639
Portion of long-term borrowings with maturity up to 1 year from abroad	924,520	915,910
Portion of long-term borrowings with maturity from 1 to 5 years in the country	133,282	299,077
Portion of long-term borrowings with maturity from 1 to 5 years from abroad	6,877,579	5,014,103
Portion of long-term borrowings with maturity from over 5 years from abroad	1,537,828	883,512
Total borrowings	**12,089,021**	**10,927,793**
Accrued interest and guarantees expenses on long-term borrowings from abroad	29,030	18,937
Deferred disbursement fees on borrowings in the country	(3,836)	(3,228)
Deferred disbursement fees on borrowings from abroad	(51,188)	(36,938)
Balance as of 31 December	**12,063,027**	**10,906,564**

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

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

Borrowings from Banks and Other Financial Institutions

	2017	2016
Banca Intesa a.d. Belgrade	2,749,094	4,114,268
Council of Europe Development Bank	493,636	720,255
European Investment Bank	1,118,909	1,234,723
GGF Southeast Europe B.V.	322,838	448,822
KfW Entwicklungsbank	1,777,091	-
European Fund for Southeast Europe S.A.	888,545	1,234,723
European Bank for Reconstruction and Development	4,738,908	3,175,002
Balance as of 31 December	**12,089,021**	**10,927,793**

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

During 2017, a loan from the European Bank for Reconstruction and Development, amounting to EUR 25 million, as well as a loan from KfW Entwicklungsbank in the amount of EUR 15 million, were withdrawn. As a collateral for these long-term loans, guarantees from Intesa Sanpaolo S.p.A. Milan were issued and recorded within off-balance sheet items (Note 30).

During 2017 the Company repaid a portion of the long-term borrowings from abroad as follows (**in EUR**):

	2017	2016
Council of Europe Development Bank	1,666,666	1,666,666
European Investment Bank	555,555	-
GGF Southeast Europe B.V.	910,000	910,000
European Fund for Southeast Europe S.A.	2,500,000	5,000,000
European Bank for Reconstruction and Development	10,714,286	4,285,714
Total	**16,346,507**	**11,862,380**

As of 31 December 2017 the Company has the following approved and undrawn credit facilities:

(a) A long-term borrowing in the amount of EUR 20 million approved by the European Investment Bank; and
(b) Part of short-term revolving borrowings amounting to EUR 1 million and RSD 40 million approved by Banca Intesa a.d. Belgrade.

The interest rate on long-term borrowings from abroad ranges from 0.05% to 2.905% per annum, depending on the maturity period.

Contractual repayment of long-term borrowings from abroad are from 4 to 11 years.

As regards the long-term loans from abroad approved by GGF Southeast Europe B.V. and the European Fund for Southeast Europe S.A., in March 2017 the Company signed agreement annexes with these creditors, which amended the limit of the *Equity to Assets Ratio* covenant, i.e. the *Aggregate Large Exposure Ratio* covenant was revoked. Pursuant to the concluded loan agreement and accompanying annexes, the Company has a contractual obligation to quarterly submit *Financial Covenants.*

The financial covenants to be prepared and submitted are:

- Equity to Assets Ratio – the covenant condition is 7%, the limit of the defined covenant is higher than 6%;
- Open Lease Exposure Ratio - the covenant condition is -8%, the limit of the defined covenant is lower than 20%; and
- Aggregate Maturity Gap Ratio - the covenant condition is 90%, the limit of the defined covenant is higher than -100%;

The Company did not exceed any covenant limit as of 31 December 2017.

24. PROVISIONS

	2017	2016
Long-term provisions for retirement benefits	270	238
Balance as of 31 December	**270**	**238**

The provision for employees' retirement benefits have been recorded on the basis of the Report of an independent actuary as of 31 December 2017 in the amount of discounted present value of future payments. When determining the present value of the expected outflows, the discount rate of 5.6% has been used, representing an appropriate rate according to IAS 19 "Employee Benefits" in the absence of a developed market of high-quality corporate bonds. The provision was determined on the basis of the Rules of Procedure of the Company and the assumption of average growth of salaries in Serbia in the last 6 years from 5.4 % a year.

Movements in provisions during the year were as follows:

	2017	2016
Balance as of 1 January	**238**	**227**
Charge for the year (Note 11)	32	11
Balance as of 31 December	**270**	**238**

25. OTHER LIABILITIES

	2017	2016
Domestic trade payables	18,693	31,885
Other payables to customers	31,292	50,656
Liabilities for unused vacations	2,323	152
Other deferrals	9,799	16,551
Withholding tax payable	33	-
Value added tax payable	2,945	7,118
Liabilities for salaries and benefits	8,170	6,435
Other liabilities	141,284	789,601
Balance as of 31 December	**214,539**	**902,398**

Other payables to customers in the amount of RSD 31,292 thousand as of 31 December 2017 mostly relate to higher instalments paid by customers in the amount of RSD 22,152 thousand (2016: RSD 44,759 thousand).

Other deferrals mostly relate to deferred income arising from subsidized interest by suppliers of the leased assets in the amount of RSD 8,177 thousand (2016: RSD 12,575 thousand).

Other liabilities as of 31 December 2017 mostly relate to the liability for profit distribution to the Company's founder Banka Intesa a.d. Belgrade in the amount of RSD 140,000 thousand (2016: RSD 789,387 thousand). The Decision on the profit distribution was adopted by the Company's General Assembly at its session held on 27 December 2017 (Note 28).

26. STAKE CAPITAL

The Company's capital structure by stakeholder's share as of 31 December 2017 and 2016 was as follows:

	2017	2016
Banca Intesa a.d. Belgrade	960,374	960,374
Balance as of 31 December	**960,374**	**960,374**

As of 31 December 2017 Banca Intesa a.d. Belgrade is the sole owner of the Company with 100% share in the Company’s stake 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. Belgrade was inscribed as the sole owner of the Company.

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

The pecuniary portion of the initial capital of the Company as of 31 December 2017 satisfies the minimal required amount prescribed by Article 10a of the Law on Finance Lease (“RS Official Gazette”, no. 55/2003, 61/2005, 31/2011 and 99/2011).

27. RESERVES

The structure of the Company's reserves as of 31 December 2017 and 2016 is as follows:

	2017	2016
Unrealized gains	9,553	11,229
Balance as of 31 December	**9,553**	**11,229**

Unrealized gains in 2017 result from the changes in fair value of short-term securities (Note 17) at the reporting date. Unrealized gains in the amount of RSD 9,553 thousand were incurred as a result of high demand for government securities on the secondary market.

28. RETAINED EARNINGS

Total retained earnings of the Company as of 31 December 2017 amount to RSD 27,548 thousand (31 December 2016: RSD 14,471 thousand and consist of part of the current year profit in the amount of RSD 13,077 thousand and the prior year's profit of RSD 14,471 thousand, while the remaining portion of the current year's profit in the amount of RSD 140,000 thousand is allocated to liabilities for profit distribution.

At its session held on 27 December 2017 the Company's General Assembly passed the decision on profit distribution in the amount of RSD 140,000 thousand, which relates to retained interim profit for 2017 (Note 25).

29. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Liabilities arising from Operating Lease

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

Minimal future lease payments under operating leases are as follows:

	2017	2016
Less than 1 year	4,592	4,696
From 1 to 5 years	18,368	18,784
Total	**22,960**	**23,480**

(b) Litigations

As of 31 December 2017 the company is involved in five court disputes as a defendant. The total value of these court cases is RSD 907 thousand and management estimates that the Company will not lose these court cases.

Taking into consideration that the amount of the litigations is not materially significant either individually or for financial statements in whole, the Company's management did not recognize a provision for such losses.

(c) Tax Risks

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

30. RELATED PARTY DISCLOSURES

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

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

The received guarantees from related parties, which are recorded within off-balance sheet items, amount to RSD 8,128,544 thousand as of 31 December 2017, and relate to Intesa Sanpaolo S.p.A. Milan.

The repo transactions with securities with the Parent Bank - Banca Intesa a.d. Belgrade, in the amount of RSD 438,349 thousand, are also recorded within off-balance sheet items.

30. RELATED PARTY DISCLOSURES (Continued)

(a) Transactions with the Owner - Banca Intesa a.d. Belgrade

Outstanding balances of receivables and liabilities as of 31 December 2017 and 2016 resulting from transactions with Banca Intesa a.d. Belgrade, as well as income and expenses earned/incurred during the year are presented as follows:

Receivables from Banca Intesa a.d. Belgrade

	2017	2016
Cash (Note 15)	139,066	75,128
Financial placements with banks (Note 16)	-	1,767,255
Receivables from finance lease activities	15,760	29,189
Receivables from overpaid liabilities	90	-
Interest on transaction deposits	483	76
Receivables from SLA contract	436	-
Balance as of 31 December	**155,835**	**1,871,648**

Liabilities to Banca Intesa a.d. Belgrade

	2017	2016
Long-term borrowings (Note 23)	133,282	299,077
Short-term borrowings (Note 23)	2,613,507	3,807,768
Interest payable (Note 23)	2,305	7,423
Deferred disbursement fees on borrowings in the country (Note 23)	(3,836)	(4,110)
Liabilities for profit distribution (Note 25)	140,000	789,387
Other liabilities	24,234	15,325
Balance as of 31 December	**2,909,492**	**4,914,870**

Income from Transactions with Banca Intesa a.d. Belgrade

	2017	2016
Interest income on deposits (Note 5)	3,669	3,615
Interest income from finance lease activities (Note 5)	1,042	1,539
Fee and commission income	32	56
Net income from foreign exchange differences and effects of the contractual currency clause	158,962	-
Total	**163,705**	**5,210**

30. RELATED PARTY DISCLOSURES (Continued)

(a) Transactions with the Owner - Banca Intesa a.d. Belgrade (Continued)

Expenses from Transactions with Banca Intesa a.d. Belgrade

	2017	2016
Interest expenses (Note 5)	40,968	67,648
Fee and commission expenses	9,504	6,273
Net foreign exchange losses and effects of foreign currency clause application	-	29,707
Expenses for guarantees issued	2,210	10,325
Expenses on SLA contract (Note 13(a))	12,641	10,973
Rental expenses	4,633	4,072
Other expenses	4,139	5,270
Total	**74,095**	**134,268**

(b) Transactions with Other Related Parties

As of 31 December 2017 and 2016 the Company had the following liabilities and receivables toward the members of Intesa Sanpaolo Group - Intesa Sanpaolo S.p.A. Milan, as well as expenses incurred during the year:

Receivables from the Members of Intesa Sanpaolo Group

	2017	2016
Other assets (Note 22)	2,586	808
Balance as of 31 December	**2,586**	**808**

Outstanding balance of other assets as of 31 December 2017 relates to receivables from the related party Intesa Sanpaolo S.p.A. Milan for salary of one of the Company's employees to be refunded.

Liabilities to the Members of Intesa Sanpaolo Group

	2017	2016
Other liabilities	5,097	1,294
Balance as of 31 December	**5,097**	**1,294**

At the end of 2017 the Company had liability to the related party Intesa Sanpaolo S.p.A. Milan for accrued expenses for the issued foreign guarantees.

30. RELATED PARTY DISCLOSURES (Continued)

(b) Transactions with Other Related Parties (Continued)

Expenses from Transactions with the Members of Intesa Sanpaolo Group

	2017	2016
Fee and commission expenses	7,321	2,716
Total	**7,321**	**2,716**

Fee and commission expanses in 2017 relate to the cost of guarantees issued by the related party Intesa Sanpaolo S.p.A. Milan.

(c) Salaries of the Key Management Personnel

During 2017 and 2016 salaries paid to the Company's management were as follows:

	2017	2016
Total gross salaries	27,381	25,420
Total net salaries	20,492	18,691

No remunerations were paid to the members of the Board of Directors during 2017 and 2016.

31. RISK MANAGEMENT

Risk is an inherent part of financial institutions' 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, lessor, 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 mitigating. The 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.

Management is responsible for implementation of the 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.

31. RISK MANAGEMENT (Continued)

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 Board of Directors.

The Company's Board of Directors analyses and adopts the proposals of policies and procedures with respect to risk management and internal controls, which are submitted to them 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 measures for their improvement, if necessary.

On 27 December 2017, the Board of Directors passed the Decision on Adopting the Limits by which the Company's risk affinity is defined (RAF limits) in order to further harmonize with the rules for the risk management of the Parent Bank (Banca Intesa a.d. Belgrade) in accordance with the regulations, standards and rules of the profession. Limits for capital adequacy, liquidity, exposure to operational risk (the so-called *"top of the house limits"*) and specific limits of credit/concentration risk, foreign currency and interest rate risk are established.

1. Limits of capital adequacy, liquidity and operational risk (the so-called *"top of the house"*) risks are as follows:
   a) Capital adequacy ratio should be higher than 8%.
   b) Leverage ratio, as a ratio of equity and total assets, should be higher than 5%.
   c) The liquidity coverage ratio (LCR) should be higher than 90%. The purpose of this ratio is to maintain a sufficient level of highly liquid assets that allows the Company to overcome the situation of significant liquidity stress for a period of 30 days.
   d) The net stable funding ratio (NSFR) should be higher than 90%. The purpose of this ratio and limits is to prevent structural mismatches in the structure of balance sheet assets and liabilities over a period of more than 1 year.
   e) Operational risk – cumulative loss over the past 12 months, should be less than EUR 200,000. This limit refers to operational risk losses that have been recorded (or spotted) in the previous 12 months that occurred over the past 5 years, excluding *"major events"* (events arising from the same operational risk event exceeding EUR 8 million).
   f) Operational risk - the individual operating loss should be less than EUR 100,000. This limit relates to operational risk losses that have been recorded in the previous 12 months, and are associated with the same operational risk event that occurred in the previous 5 years.

2. Specific limits of credit risk/concentration risk, foreign exchange and interest rate risk:
   a) State exposure concentration limit: net exposure to state institutions and public companies as a percentage of total assets should be less than 25%.
   b) Concentration of exposure to commercial property limit: net exposure to clients whose subject of financing is property, as well as to entities engaged in building property in comparison with the total gross exposure minus provisions that should be less than 25%.
   c) Concentration limit of exposure to an individual client or a group of related parties limit should not exceed 25% of equity.
   d) Concentration limit of exposure by the type of leased asset: net exposure to the type of leased assets in comparison with the total exposure must be less than 60%.

31. RISK MANAGEMENT (Continued)

e) The limit of sensitivity of the economic value of capital to a change in the interest rate of +/- 200 basis points should be lower than 20% of the Company’s equity.
f) The open foreign exchange position should be less than EUR 400,000.

In addition to the Decision on Adopting the Limits as a general document that regulates risk management by which the Company's risk affinity is defined (RAF limits), in order to implement a specific and uniform risk management system and ensure functional and organizational separation of risk management activities from regular business activities, the Risk Management Sector and the Credit Management Sector of Banca Intesa a.d. Belgrade are included in the risk management process.

The process of risk management is formalized through six procedures which are harmonized with the rules of ISP Group at least annually.

Adopted procedures are presented as follows:

- Procedure for managing risk exposure;
- Procedure for managing liquidity risk;
- Procedure for managing interest rate risk;
- Procedure for managing operational risk;
- Procedure for managing compliance risk;
- Procedure for managing foreign exchange risk;
- Policy for managing credit risk;
- Policy for managing socio-ecologic risk; and
- Policy for managing information system.

Both the Company’s and Banca Intesa a.d. Belgrade organizational units in charge of risk management continuously monitor changes in the legislation, analyze its influence on the risks at the 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 the controlled risk.

In addition, introduction of new services is followed by a necessary market and economic analyses in order to optimize the relation between income and the provision for estimated risks.

31.1. Credit Risk

Credit risk is the risk that a contractual party will not be able to fulfil the related contractual obligation, causing financial loss of the counterparty.

By its internal acts and procedures, the Company implements the adequate system of the credit risk management and reduces credit risk to an acceptable level.

The Company manages 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
- Total portfolio level.

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

According to the Agreement on business cooperation with Banca Intesa a.d. Belgrade, assessment of the creditworthiness 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 creditworthiness analysis.
- The collected documentation is sent to the Department for Credit Analysis of Banca Intesa a.d. Belgrade for a further analysis of creditworthiness, repayment history and value of collateral.
- The Department for Credit Analysis of Banca Intesa a.d. Belgrade makes a proposal of the decision for placement approval.
- The Credit Committee of the Company, consisting of the President and members of the Executive Board, makes the decision on placement approval based on the abovementioned proposal of the Department for Credit Analysis.

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

- The Company's Credit Committee can approve lease placements to clients, or to a group of related parties, in cases when total exposure (aggregate exposure to Banca Intesa a.d. Belgrade and Intesa Leasing d.o.o. Belgrade), including that of the new placement, is not higher than EUR 100,000 in dinar equivalent, using the median median exchange rate of the NBS as of the day of decision.
- The Company's Credit Committee can approve lease placements to clients, or to groups of related parties that are classified as small, medium and large legal entities, when the amount is not higher than EUR 50,000, regardless the previous exposure to the abovementioned clients, providing that the total client's (or group of related parties) exposure is not higher than EUR 10 million, including the amount of required lease placements.

The Company manages the credit risk by setting up limits with respect to the 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 the credit risk through assessment and analysis of received collaterals, 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, out of which the most important are: related parties, regions, or economic groups.

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

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

Standard collaterals provided by customers are, in addition to the object of leasing, blank promissory notes.

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

In cases of real estate mortgages or pledges on movable property, 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 Sector of Banca Intesa a.d. Belgrade performs assessment of impairment of the Company’s receivables for finance lease.

In the process of assessment of impairment of receivables for finance lease 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 for finance lease is performed as collective assessment. Individual assessments are taken into account for non-performing exposures higher than EUR 250,000. The impairment provision is estimated monthly.

In 2017, the Assets Quality Committee adopted numerous measures and activities for finding the best possible solutions for dealing with bad and non-performing receivables.

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(a) Portfolio Quality

The following table presents the quality of the **gross portfolio,** i.e. receivables from finance lease activities excluding short-term receivables, accrued interest income and deferred origination fees (Note 18) and allowances for impairment of finance lease receivables as of **31 December 2017**, by types of receivables and based on the Company's internal grading system:

	Performing	Past due	Unlikely to pay	Doubtful	Total 31/12/2017
Placements to Banca Intesa a.d. Belgrade	**15,760**	**-**	**-**	**-**	**15,760**
Placements to customers					
Corporate customers	661,706	-	-	-	661,706
Medium companies	1,926,529	-	-	12,247	1,938,776
Small companies	6,353,986	-	22,340	43,849	6,420,175
Micro companies	2,720,385	9,457	4,055	105,567	2,839,464
Entrepreneurs	368,110	-	-	8,348	376,458
Retail customers	96,623	20		7,010	103,653
Farmers	111,051	-	6,304	63,838	181,193
Other institutions	38,073	-	-	-	38,073
	12,276,463:	**9,477**	**32,699**	**240,859**	**12,559,498**
Total	**12,292,223:**	**9,477**	**32,699**	**240,859**	**12,575,258**
Participation in the total gross placements	**97.74%**	**0.08%**	**0.26%**	**1.92%**	**100.00%**

	Performing	Past due	Unlikely to pay	Doubtful	Total 31/12/2017
Allowance for impairment - Banca Intesa a.d. Belgrade	**-**	**-**	**-**	**-**	**-**
Placements to customers					
Corporate customers	24,271	-	-	-	24,271
Medium companies	15,083	-	-	12,247	27,330
Small companies	38,729	-	8,696	38,891	86,316
Micro companies	31,736	3,149	1,051	104,471	140,407
Entrepreneurs	4,534	-	-	6,711	11,245
Retail customers	227	4	-	6,968	7,199
Farmers	1,445	-	2,374	63,631	67,450
Other institutions	82	-	-	-	82
Total	**116,107**	**3,153**	**12,121**	**232,919**	**364,300**
Participation in the total allowance for impairment	**31.87%**	**0.87%**	**3.33%**	**63.93%**	**100.00%**

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(a) Portfolio Quality (Continued)

The following table presents the quality of the **gross portfolio**, i.e. receivables from finance lease activities excluding short-term receivables, accrued interest income and deferred origination fees and allowance for impairment of finance lease receivables as of **31 December 2016**, by types of placements and based on the Company's internal grading system and impairment of receivables:

	Performing	Past due	Unlikely to pay	Doubtful	Total 31/12/2016
Placements to Banca Intesa a.d. Belgrade	**29.189**	**-**	**-**	**-**	**29.189**
Placements to customers					
Corporate customers	363,082	-	-	-	363,082
Medium companies	1,947,068	-	-	28,050	1,975,118
Small companies	3,864,256	22,670	19,636	31,816	3,938,378
Micro companies	2,956,625	486	2,580	113,585	3,073,276
Entrepreneurs	238,420	-	-	6,757	245,177
Retail customers	63,712	683	-	8,898	73,293
Farmers	144,997	-	-	66,851	211,848
Other institutions	4,661	-	-	-	4,661
	9,582,821	**23,839**	**22,216**	**255,957**	**9,884,833**
Total	**9,612,010**	**23,839**	**22,216**	**255,957**	**9,914,022**
Participation in the total allowance for impairment	**96.96%**	**0.24%**	**0.22%**	**2.58%**	**100.00%**

	Performing	Past due	Unlikely to pay	Doubtful	Total 31/12/2016
Allowance for impairment -Banca Intesa a.d. Belgrade	**-**	**-**	**-**	**-**	**-**
Placements to customers					
Corporate customers	7,366	-	-	-	7,366
Medium companies	25,923	-	-	14,086	40,009
Small companies	53,169	737	14,445	21,109	89,460
Micro companies	46,662	92	1,491	112,189	160,434
Entrepreneurs	3,185	-	-	6,757	9,942
Retail customers	188	103	-	8,473	8,764
Farmers	700	-	-	66,444	67,144
Other institutions	27	-	-	-	27
Total	**137,220**	**932**	**15,936**	**229,058**	**383,146**
Participation in the total allowance for impairment	**35.81%**	**0.24%**	**4.16%**	**59.79%**	**100.00%**

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(a) Portfolio Quality (Continued)

The following table presents the quality of the **net portfolio,** i.e. receivables from finance lease activities excluding short-term receivables, accrued interest income and deferred origination fees as of 31 December 2017 and 2016, by types of receivables and based on the Company's internal grading system:

	Performing	Past due	Unlikely to pay	Doubtful	Total 31/12/2017
Placements to Banca Intesa a.d. Belgrade	**15.760**	**-**	**-**	**-**	**15.760**
Placements to customers					
Corporate customers	637,435	-	-	-	637,435
Medium companies	1,911,446	-	-	-	1,911,446
Small companies	6,315,257	-	13,644	4,958	6,333,859
Micro companies	2,688,649	6,308	3,004	1,096	2,699,057
Entrepreneurs	363,576	-	-	1,637	365,213
Retail customers	96,396	16	-	42	96,454
Farmers	109,606	-	3,930	207	113,743
Other institutions	37,991	-		-	37,991
	12,160,356	**6,324**	**20,578**	**7,940**	**12,195,198**
Total	**12,176,116**	**6,324**	**20,578**	**7,940**	**12,210,958**
Participation in the total allowance for impairment	**99.71%**	**0.05%**	**0.17%**	**0.07%**	**100.00%**

	Performing	Past due	Unlikely to pay	Doubtful	Total 31/12/2016
Placements to Banca Intesa a.d. Belgrade	**29,189**	**-**	**-**	**-**	**29,189**
Placements to customers					
Corporate customers	355,716	-	-	-	355,716
Medium companies	1,921,145	-	-	13,964	1,935,109
Small companies	3,811,086	21,933	5,191	10,708	3,848,918
Micro companies	2,909,963	394	1,089	1,396	2,912,842
Entrepreneurs	235,235	-	-	-	235,235
Retail customers	63,524	580	-	425	64,529
Farmers	144,298	-	-	406	144,704
Other institutions	4,634	-	-	-	4,634
	9,445,601	**22,907**	**6,280**	**26,899**	**9,501,687**
Total	**9,474,790**	**22,907**	**6,280**	**26,899**	**9,530,876**
Participation in the total allowance for impairment	**99.41%**	**0.24%**	**0.07%**	**0.28%**	**100.00%**

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(a) Portfolio Quality (Continued)

Ageing Structure of Overdue Receivables of High and Standard Quality

The ageing analysis of overdue performing receivables as of **31 December 2017** is presented in the table below:

	Up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total 31/12/2017
Receivables from customers					
Corporate customers	3,540	33,503	-	-	37,043
Medium companies	15,458	2,749	-	-	18,207
Small companies	24,601	1,395	-	-	25,996
Micro companies	20,398	3,321	-	-	23,719
Entrepreneurs	2,253	183	4	-	2,440
Retail customers	25	-	-	-	25
Farmers	1,906	-	-	-	1,906
Other institutions	-	-	-	-	-
Total	**68,181**	**41,151**	**4**	**-**	**109,336**
Participation in total overdue receivables of high and standard quality	**62.36%**	**37.64%**	**0.00%**	**0.00%**	**100.00%**

The ageing analysis of overdue performing receivables as of **31 December 2016** is presented in the table below:

	Up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total 31/12/2016
Receivables from customers					
Corporate customers	6,608	-	-	-	6,608
Medium companies	11,496	896	-	-	12,392
Small companies	27,643	56	-	-	27,699
Micro companies	9,320	548	60	-	9,928
Entrepreneurs	1,312	225	147	-	1,684
Retail customers	60	-	-	-	60
Farmers	291	135	-	-	426
Other institutions	15	-	-	-	15
Total	**56,745**	**1,860**	**207**	**-**	**58,812**
Participation in total overdue receivables of high and standard quality	**96.49%**	**3.16%**	**0.35%**	**0.00%**	**100.00%**

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(b) Maximum Exposure to Credit Risk

The structure of the Company's maximum credit risk exposure presented at its **gross value of receivables from finance lease activities** excluding short-term receivables and deferred origination fees (Note 18) as of **31 December 2017**, grouped by geographical sectors, is presented in the table below:

Geographical sector	Receivable from clients	Allowance for impairment	Net 31/12/2017	% of participation in net placements
Vojvodina	4,526,930	(117,526)	4,409,404	36.11%
Belgrade	5,345,101	(123,380)	5,221,721	42.77%
South and East Serbia	574,222	(45,189)	529,033	4.33%
Sumadija and West Serbia	2,129,005	(78,205)	2,050,800	16,79%
Total	**12,575,258**	**(364,300)**	**12,210,958**	**100.00%**

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

Geographical sector	Receivable from clients	Allowance for impairment	Net 31/12/2017	% of participation in net placements
Vojvodina	3,828,987	(126,310)	3,702,677	38.85%
Belgrade	3,459,721	(141,511)	3,318,210	34.82%
South and East Serbia	475,629	(45,315)	430,314	4.51%
Sumadija and West Serbia	2,149,685	(70,010)	2,079,675	21.82%
Total	**9,914,022**	**(383,146)**	**9,530,876**	**100.00%**

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(b) Maximum Exposure to Credit Risk (Continued)

Analysis of the Company's exposure to credit risk by **sector** and **type of leased assets** is presented at the value of net placements, i.e. finance lease receivables excluding other receivables, accrued interest income and deferred origination fees.

The analysis with the balance as of **31 December 2017 and 2016** is presented in the table below:

	Industry structure	Maximum exposure 2017	Percentage of exposure 2017	Maximum exposure 2016	Percentage of exposure 2016
1.	Agriculture, forestry and fishing (sector A)	324,185	2,65%	375,123	3.94%
2.	Mining industry; Processing industry; Water supply, waste water management and related activities (sectors B, C and E)	1,886,302	15,45%	1,303,063	13.67%
3.	Power supply, gas, steam supply and air conditioning (sector D)	52,791	0,43%	7,640	0.08%
4.	Construction (sector F)	1,434,387	11,75%	1,160,837	12.18%
5.	Wholesale and retail; vehicles and motorcycles repair (sector G)	1,077,259	8,82%	783,249	8.22%
6.	Transportation and storage - information and communications (sectors H and J)	4,495,315	36,81%	3,851,239	40.41%
7.	Hotels and restaurants (sector I)	189,630	1,55%	146,903	1.54%
8.	Financial activities and insurance (sector K)	23,274	0,19%	31,987	0.34%
9.	Health care and social work (sector Q)	54,137	0,44%	47,061	0.48%
10.	Other industries (sectors L, M, N, O, P, R, S, T and U)	2,673,678	21,91%	1,823,774	19.14%
	Total	**12,210,958**	**100,00%**	**9,530,876**	**100.00%**

The maximum exposure to a single sector is 50% of the total exposure. In the reporting period the Company did not exceed the defined limit of sectorial structure. The sector of Transportation and storage has the largest participation in placements in both years.

The largest increase in the participation in the sectorial structure as of 31 December 2017 by 2.77% is in Other industries, and the largest decrease in the structure as compared to the previous year is in the Transportation and storage sector, by 3.60%.

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(b) Maximum Exposure to Credit Risk (Continued)

	Exposure by leased asset	Maximum exposure 2017	Percentage of exposure 2017	Maximum exposure 2016	Percentage of exposure 2016
1.	Production machines and equipment	53,360	0,44%	61,995	0.65%
2.	Construction machines and equipment	935,279	7,66%	665,675	6.98%
3.	Agricultural machines and equipment	370,103	3,03%	416,467	4.37%
4.	Trucks, vans and buses	5,585,506	45,74%	4,623,972	48.52%
5.	Passenger vehicles	2,364,941	19,37%	1,284,559	13.48%
6.	Rail vehicles, watercraft and aircraft	10,623	0,09%	10,033	0.11%
7.	House appliances	-	0,00%	-	0.00%
8.	Machines and equipment for rendering of services	2,857	0,02%	3,580	0.04%
9.	Other movables	943,639	7,73%	919,606	9.65%
10.	Commercial properties	1,942,656	15,91%	1,541,943	16.17%
11.	Other movables	1,994	0,01%	3,046	0.03%
	Total	**12,210,958**	**100,00%**	**9,530,876**	**100.00%**

The maximum exposure by type of leased asset is 60% of the total exposure. In the reporting period, the Company did not exceed the limit of exposure by type of leased asset. The largest exposure in the observed periods was registered with trucks, vans and buses – 45.74%, with a decrease in the percentage of exposure in 2017 by 2.78%, being also the most significant decrease in the percentage of exposure in 2017. The largest increase in the percentage of exposure was in passenger vehicles, by 5.89%.

Exposure Risk

The Company monitors and measures exposure towards a single party or a group of related parties as well as compliance of the exposure indicators in the decision making process on placement approval.

Exposure to a single entity or a group of related parties is monitored through the following reports:

- Exposures to individual customers who have an individually higher amount of gross placements over 10% in relation to the Company's equity;
- The ratio of total exposure to the 20 largest customers in relation to the Company's equity; and
- The ratio of the total exposure of the rest of clients (except for the 20 largest) in relation to the Company's equity.

Exposure risk is measured in relation to the Company's equity. As of 31 December 2017, 14 clients had individual exposure risk exceeding 10% of the Company's equity (2016: 12 clients).

The total exposure to the 20 largest clients in relation to the Company's equity as of 31 December 2017 was 366.66% (31 December 2016: 396.94%), thus the exposure to the 20 largest customers in relation to the Company's equity in 2017 decreased by 30.28% as compared to the previous year.

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(b) Maximum Exposure to Credit Risk (Continued)

Exposure Risk (Continued)

Five clients have risk exposure exceeding maximum risk exposure of 25% of the Company’s equity, established as a limit in the Policy for managing risk exposure. For the clients who have risk exposure greater than 25% of the Company's equity, the Company has provided the consent of the Board of Directors to exceed the defined limit of exposure.

Net receivables from the 20 largest clients as of 31 December 2017 amounted to RSD 3,657,372 thousand (31 December 2016: RSD 3,954,071 thousand).

As of 31 December 2017, all other clients had the exposure of RSD 7,864,864 thousand (31 December 2016: RSD 6,067,440 thousand).

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

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

	2017	2016
Carrying amount of the allowance for impairment of receivables	372,199	392,232
Allowance for impairment of receivables without collateral	525,400	662,548
Effect on the calculation of the allowance for impairment of receivables	**153,201**	**270,316**
Effect on the calculation of collective allowances for impairment	151,181	252,872
Effect on the calculation of individual allowances for impairment	2,020	17,444

The amount presented as the effect on the calculation of the allowance for impairment of receivables reflects the amount by which the calculated allowance for impairment would have been higher had collaterals not been included in the calculation.

As of 31 December 2017, the Company has one client in the portfolio which does not have any delay in payments and has no established allowance for impairment - Banca Intesa a.d. Belgrade.

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

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(b) Maximum Exposure to Credit Risk (continued)

Analysis of Collaterals

Analysis of the portfolio by collateral type at **31 December 2017 and 2016** is presented in the following table:

	2017		2016	
	Gross placement	Total value of collaterals	Gross placement	Total value of collaterals
Receivables from corporate customers:	**12,251,496**	**16,025,572**	**9,811,383**	**11,515,826**
Secured by mortgage	990,782	990,782	1,761,801	1,761,801
Secured by deposit	22,360	22,360	632,073	632,073
Secured by leased asset	11,238,354	15,012,430	7,417,509	9,121,952
Unsecured by collateral	-		-	-
Receivables from retail customers:	**288,122**	**323,267**	**73,293**	**100,123**
Secured by mortgage	-	-	-	-
Secured by deposit	1,015	1,015	-	-
Secured by leased asset	287,107	322,252	73,293	100,123
Unsecured by collateral	-	-	-	-
Receivables from banks:	**15,760**	**21,811**	**29,189**	**30,392**
Secured by mortgage	-	-	-	-
Secured by deposit	-	-	-	-
Secured by leased asset	15,760	21,811	29,189	30,392
Unsecured by collateral	-	-	-	-
Receivables from state and local authorities:	**19,880**	**20,191**	**157**	**337**
Secured by mortgage	-	-	-	-
Secured by deposit	-	-	-	-
Secured by leased asset	19,880	20,191	157	337
Unsecured by collateral	-	-	-	-
Total	**12,575,258**	**16,390,841**	**9,914,022**	**11,646,678**

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

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(b) Maximum Exposure to Credit Risk (Continued)

Analysis of Collateral (Continued)

The ratio between receivables and collateral value (LTV ratio) as of 31 December 2017 and 2016 is presented in the following table:

2017		2016	
LTV ratio	**Amount of receivable**	**LTV ratio**	**Amount of receivable**
<50%	472,786	<50%	556,170
51% - 70%	702,913	51% - 70%	641,864
71% - 90%	1,428,320	71% - 90%	1,287,195
91% - 100%	1,102,812	91% - 100%	1,174,133
>100%	8,868,427	>100%	6,254,660
Total	**12,575,258**	**Total**	**9,914,022**

(c) Assessment of Impairment of Financial Assets

Structure of the allowance for impairment of financial assets, i.e. receivables from finance lease activities excluding short-term receivables, accrued interest income and deferred origination fees, as of 31 December 2017 and 2016 is presented below:

2017	**Gross receivables from finance lease activities**	**Allowance for impairment**	**Gross receivables from finance lease activities**
Receivables - Banca Intesa a.d. Belgrade	15,760	-	15,760
Corporate customers	661,706	(24,271)	637,435
Medium companies	1,938,776	(27,330)	1,911,446
Small companies	6,420,175	(86,316)	6,333,859
Micro companies	2,839,464	(140,407)	2,699,057
Entrepreneurs	376,458	(11,245)	365,213
Retail customers	103,653	(7,199)	96,454
Farmers	181,193	(67,450)	113,743
Other institutions	38,073	(82)	37,991
Total	**12,575,258**	**(364,300)**	**12,210,958**

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(c) Assessment of Impairment of Financial Assets (Continued)

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

Structure of the allowance for impairment of financial assets by the model of impairment calculation as of 31 December 2017 and 2016 is presented in the following table:

2017	Gross receivables from finance lease activities	% gross receivables	Allowance for impairment	% total impairment
Group impairment assessment	12,442,826	98,95%	(246,698)	67.72%
Individual impairment assessment	132,432	1,05%	(117,602)	32,.28%
Total	**12,575,258**	**100,00%**	**(364,300)**	**100.00%**

2016	Gross receivables from finance lease activities	% gross receivables	Allowance for impairment	% total impairment
Group impairment assessment	9,802,835	98,88%	(304,317)	79.43%
Individual impairment assessment	111,187	1,12%	(78,829)	20.57%
Total	**9,914,022**	**100,00%**	**(383,146)**	**100.00%**

31. RISK MANAGEMENT (Continued)

31.2. Liquidity Risk

Liquidity risk is the risk that the Company would not be able to settle its liabilities when they fall due. The Company's liquidity depends primarily on the 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).

The Finance and Operations Sector 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 position.

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

Furthermore, the Company has contracted framework credit facilities as an instrument for liquidity management as of 31 December 2017.

The table below analyses maturity of assets and liabilities of the Company based on the contracted payment conditions. Contractual maturities of assets and liabilities are determined based on the remaining maturity at the balance sheet date compared to the contractual maturity. The column Gross exposure in the following tables reports the amounts of assets and liabilities without being reduced by allowance for impairment.

The Maturity mismatch report as of 31 December 2017 indicates a high level of liquidity, especially in the period of the next 5 years.

Periodic GAP is negative for a period of 6 to 12 months, due to the fact that all short-term borrowings in the country are to be repaid in this period. The Company plans to adjust this gap by repaying short-term borrowings from funds arising from long-term loans from abroad which are planned to be withdrawn in that period.

31. RISK MANAGEMENT (Continued)

31.2. Liquidity Risk (Continued)

	Carrying amount	Gross amount	Up to 30 days	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months to 5 years	Over 5 years	Undefined maturity
ASSETS										
Cash	139,066	139,066	139,066	-	-	-	-	-	-	-
Financial placements with banks	-	-	-	-	-	-	-	-	-	-
Other financial placements and derivatives	496,080	496,080	-	23,497	-	-	472,583	-	-	-
Receivables from finance lease activities	12,159,791	12,531,990	779,097	780,160	942,939	1,790,228	1,555,755	6,591,483	176,894	(84,566)
Repossessed leased assets and inventories	457,971	458,127	-	-	-	-	-	-	-	458,127
Intangible assets	11,076	35,332	-	-	-	-	-	-	-	35,332
Property, plant and equipment	6,002	22,793	-	-	-	-	-	-	-	22,793
Deferred tax assets	2,396	2,396	-	-	-	-	-	-	-	2,396
Other assets	15,228	91,291	6,627	3,725	208	1,142	-	-	-	79,589
TOTAL ASSETS	**13,287,610**	**13,777,075**	**924,790**	**807,382**	**943,147**	**1,791,370**	**2,028,338**	**6,591,483**	**176,894**	**513,671**
LIABILITIES AND EQUITY										
Borrowings from banks	12,063,027	12,063,027	520,629	268,519	463,211	2,317,004	552,275	6,458,586	1,537,828	(55,025)
Provisions	270	270	-	-	-	-	-	-	-	270
Current tax liabilities	12,299	12,299	-	-	12,299	-	-	-	-	-
Other liabilities	214,539	214,539	43,972	11,274	148,096	-	-	-	-	11,197
Total liabilities	**12,290,135**	**12,290,135**	**564,601**	**279,793**	**623,606**	**2,317,004**	**552,275**	**6,458,586**	**1,537,828**	**(43,558)**
Stake capital	960,374	960,374	-	-	-	-	-	-	-	960,374
Unrealized gains	9,553	9,553	-	-	-	-	-	-	-	9,553
Retained earnings	27,548	27,548	-	-	-	-	-	-	-	27,548
Total equity	**997,475**	**997,475**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**997,475**
TOTAL LIABILITIES AND EQUITY	**13,287,610**	**13,287,610**	**564,601**	**279,793**	**623,606**	**2,317,004**	**552,275**	**6,458,586**	**1,537,828**	**953,917**
Liquidity gap as of:										
- 31 December 2017		**489,465**	**360,189**	**527,589**	**319,541**	**(525,634)**	**1,476,063**	**132,897**	**(1,360,934)**	**(440,246)**
Cumulative liquidity gap		**489,465**	**360,189**	**887,778**	**1,207,319**	**681,685**	**2,157,748**	**2,290,645**	**929,711**	**489,465**

31. RISK MANAGEMENT (Continued)

31.2. Liquidity Risk (Continued)

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

31. RISK MANAGEMENT (Continued)

31.3. Market Risk

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

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

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

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

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

31.3.1. Interest Rate Risk

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

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

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

The following table presents the Repricing Gap Report, i.e. the Company's exposure to the interest rate risk at 31 December 2017. The table includes the Company's assets and liabilities at their carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

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

31. RISK MANAGEMENT (Continued)

31.3. Market Risk (Continued)

31.3.1. Interest Rate Risk (Continued)

	Carrying amount	Up to 30 days	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months to 5 years	Over 5 years	Interest insensitive
ASSETS									
Cash	139,066	139,066	-	-	-	-	-	-	-
Financial placements banks	-	-	-	-	-	-	-	-	-
Other financial placements and derivatives	496,080	-	-	-	-	472,583	-	-	23,497
Receivables from finance lease activities	12,159,791	359,537	6,795,922	1,266,871	799,770	754,348	2,596,798	2,012	(415,467)
Repossessed lease assets and inventories	457,971	-	443,759	-	-	-	-	-	14,212
Intangible assets	11,076	-	-	-	-	-	-	-	11,076
Property, plant and equipment	6,002	-	-	-	-	-	-	-	6,002
Deferred tax assets	2,396	-	-	-	-	-	-	-	2,396
Other assets	15,228	-	-	-	-	-	-	-	15,228
TOTAL ASSETS	**13,287,610**	**498,603**	**7,239,681**	**1,266,871**	**799,770**	**1,226,931**	**2,596,798**	**2,012**	**(343,056)**
LIABILITIES AND EQUITY									
Borrowings from banks	12,063,027	1,565,896	3,005,600	1,544,971	252,613	250,494	4,138,825	1,359,653	(55,025)
Provisions	270	-	-	-	-	-	-	-	270
Current tax liabilities	12,299	-	-	-	-	-	-	-	12,299
Other liabilities	214,539	-	-	-	-	-	-	-	214,539
Total liabilities	**12,290,135**	**1,565,896**	**3,005,600**	**1,544,971**	**252,613**	**250,494**	**4,138,825**	**1,359,653**	**172,083**
Stake capital	960,374	-	-	-	-	-	-	-	960,374
Unrealized gains	9,553	-	-	-	-	-	-	-	9,553
Retained earnings	27,548	-	-	-	-	-	-	-	27,548
Total equity	**997,475**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**997,475**
TOTAL LIABILITIES AND EQUITY	**13,287,610**	**1,565,896**	**3,005,600**	**1,544,971**	**252,613**	**250,494**	**4,138,825**	**1,359,653**	**1,169,558**
Periodic GAP as of 31 December 2017		**(1,067,293)**	**4,234,081**	**(278,100)**	**547,157**	**976,437**	**(1,542,027)**	**(1,357,641)**	**(1,512,614)**
Cumulative GAP		**(1,067,293)**	**3,166,788**	**2,888,688**	**3,435,845**	**4,412,282**	**2,870,255**	**1,512,614**	**-**

31. RISK MANAGEMENT (Continued)

31.3. Market Risk (Continued)

31.3.1. Interest Rate Risk (Continued)

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

31. RISK MANAGEMENT (Continued)

31.3. Market Risk (Continued)

31.3.1. Interest Rate Risk (Continued)

The total cumulative gap of up to 1 year amounts to RSD 3,435,845 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:

31 December 2017

		Sensitivity to change (+200 b.p.)					
(In RSD thousand)	**Total**	**0-18 months**	**18 months - 3 years**	**3 - 5 years**	**5 - 10 years**	**10 - 15 years**	**> 15 years**
Currency	190,218	(38,676)	(247)	90,465	138,676	-	-
EUR	215,635	(24,275)	6,474	94,760	138,676	-	-
CHF	-	-	-	-	-	-	-
RSD	(25,416)	(14,400)	(6,721)	(4,295)	-	-	-

By changing an interest rate by 2%, the effect on income and expenses of the Company would be RSD 190,218, which is less than the limit of 20% in relation to equity, being RSD 199,495 thousand.

Interest rate risk limit is a measure of acceptable risk to which the Company may be exposed. Limit is measured with a change in the net asset value due to changes in interest rates of + 200bp and it must not exceed 20% of the Company's equity. The Company measures regularly and reports to the Parent Bank the interest rate risk exposure. In case of breaching the allowed limit, necessary steps are to be promptly taken in order to repair the breach.

Forms of risks that may be subject to monitoring are:

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

31. RISK MANAGEMENT (Continued)

31.3. Market Risk (Continued)

31.3.1. Interest Rate Risk (Continued)

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

31.3.2. Foreign Currency Risk

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

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

In order to manage foreign currency risk, the Company negotiates finance lease contracts in EUR, with annuities paid in the dinar equivalent at the applicable contracted exchange rate. Offering finance lease in different currencies leads to the exposure to exchange rates fluctuations for different currencies. In accordance with the Company's internal policy, as well as potential fluctuations in exchange rates, the open foreign currency position limit has been set up to EUR 400 thousand.

The Company measures the foreign currency risk on a daily basis, according to the methodology established in the Procedure for managing foreign currency risk based on the methodology of the National Bank of Serbia, through the Report on the foreign currency risk indicator.

During 2017, the Company strictly paid attention to the compliance of the foreign currency risk indicator with the prescribed limit, whereby this indicator was constantly within the defined limit.

The total open foreign currency position as of 31 December 2017 amounted to RSD 15,255 thousand, while the foreign currency risk indicator amounted to 1.53% of equity. As of 31 December 2016, the total open foreign currency position amounted to RSD 27,802 thousand, while the foreign currency risk indicator was 2.82% of the Company's equity.

31. RISK MANAGEMENT (Continued)

31.3. Market Risk (Continued)

31.3.2. Foreign Currency Risk (Continued)

The following table presents the Company's exposure to foreign currency risk as of **31 December 2017**:

	Carrying amount	RSD	EUR	CHF
ASSETS				
Cash	139,066	139,066	-	-
Financial placements with banks	-	-	-	-
Other financial investments and derivatives	496,080	496,080	-	-
Receivables from finance lease activities	12,159,791	516,791	11,643,000	-
Repossessed leased assets and inventories	457,971	1,481	456,490	-
Intangible assets	11,076	11,076	-	-
Property, plant and equipment	6,002	6,002	-	-
Deferred tax assets	2,396	2,396	-	-
Other assets	15,228	12,476	2,752	-
TOTAL ASSETS	**13,287,610**	**1,185,368**	**12,102,242**	**-**
LIABILITIES AND EQUITY				
Borrowings from banks	12,063,027	7,281	12,055,746	-
Provisions	270	270	-	-
Current tax liabilities	12,299	12,299	-	-
Other liabilities	214,539	183,298	31,241	-
Total liabilities	**12,290,135**	**203,148**	**12,086,987**	**-**
Stake capital	960,374	960,374	-	-
Unrealized gains	9,553	9,553	-	-
Retained earnings	27,548	27,548	-	-
Total equity	**997,475**	**997,475**	**-**	**-**
TOTAL LIABILITIES AND EQUITY	**13,287,610**	**1,200,623**	**12,086,987**	**-**
Net foreign currency position - 31 December 2017	**-**	**(15,255)**	**15,255**	**-**

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.

31. RISK MANAGEMENT (Continued)

31.3. Market Risk (Continued)

31.3.2. Foreign Currency Risk (Continued)

The following table presents the Company's exposure to foreign currency risk as of **31 December 2016**:

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

31. RISK MANAGEMENT (Continued)

31.3. Market Risk (Continued)

31.3.2. Foreign Currency Risk (Continued)

The following table shows the effects of changes in exchange rates (RSD to EUR) on the Company's result:

Scenario	Effect to 2017 income statement	Effect to 2016 income statement
10% depreciation of RSD	1,526	6,730
20% depreciation of RSD	3,052	13,246

As presented in the table above, in the case of depreciation of the dinar exchange rate by 10%, the effect on the result and the equity of the Company would be positive in the amount of RSD 1,526 thousand.

Foreign exchange risk indicator in the event of the depreciation of the dinar exchange rate by 10% would be 1.68%, and in the case of the depreciation of the dinar exchange rate by 20%, it would be 1.83%.

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

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

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

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

3. The most useful instrument for managing foreign currency position is buying and selling foreign currencies for dinars, so an appropriate position can be established on a daily basis. The transaction is performed by contacting dealers in the Treasury Sector of Banca Intesa a.d. Belgrade who provide pricing for the required type of transaction.

31. RISK MANAGEMENT (Continued)

31.4. Operational Risk

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

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

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

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

Operational risks comprise:

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

During 2017 and 2016 operational risks were traced through the "Serenity" application. Tracing and recording of identified events that cause the Company's operational risks is performed by operational risk monitoring coordinators.

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

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

During 2017, there was one operational risk event – an external fraud. The total estimated loss of the Company arising from this even amounted to EUR 60 thousand.

Planned corrective activities based on this case of operational risk is the introduction of the *"knock out"* criteria into a new version of the Credit Risk Management Procedures, as well as an improvement in the analysis of customers and suppliers of the client using the leasing services.

31. RISK MANAGEMENT (Continued)

31.5. Fair Value of Financial Assets and Liabilities

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

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

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

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

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

Determination of fair value of financial instruments, which are presented at amortized cost has to respect the criteria, principles and hierarchy defined by the Policy of fair value, which is in line with the rules of fair valuation of the ISP group.

Measuring the fair value of financial instruments, which are not presented at amortized cost, respects the following hierarchy which reflects the credibility of inputs used in determining fair value:

- Level 1: inputs are quoted market prices (without adjustment) in active markets for identical instruments;
- Level 2: inputs that are not quoted prices included in Level 1, but they are directly or indirectly (derived from price) quoted in the market. This category includes: market interest rates, market quotations of CDS (credit default swap) market prices of bonds with a primary auction or market exchange rates when defining value of instruments; and
- Level 3: Inputs for which there is no information from the market available. This category includes all instruments for which information on the value of the input is not directly or indirectly measurable in the market.

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

31. RISK MANAGEMENT (Continued)

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

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

- Financial assets available for sale, which include RSD treasury bills of the Republic of Serbia are measured by discounting the future contractual cash flows, using the market risk free yield curve adjusted to liquidity risk (Level 2); and
- The RSD government bonds, for which there is a liquid and active market, but they are not quoted (Level 2).

The following table presents the value of financial instruments stated at fair value in the balance sheet of the Company as of 31 December 2017 and 2016, measured on the basis of different information in accordance with the hierarchies prescribed by the Policy of fair value:

2017	Level 1	Level 2	Level 3	Total fair value	Carrying value
Other financial placements and derivatives	-	496,080	-	496,080	496,080
Total	**-**	**496,080**	**-**	**496,080**	**496,080**

2016	Level 1	Level 2	Level 3	Total fair value	Carrying value
Other financial placements and derivatives	-	1,008,076	-	1,008,076	1,008,076
Total	**-**	**1,008,076**	**-**	**1,008,076**	**1,008,076**

The following table presents the fair value of instruments that are not measured at fair value in the balance sheet of the Company as of 31 December 2017 and 2016 and are allocated according to the respective levels of the fair value hierarchy:

2017	Level 1	Level 2	Level 3	Total fair value	Carrying value
Cash	-	139,066	-	139,066	139,066
Receivables from finance lease activities	-	-	12,082,710	12,082,710	12,159,791
Total assets	**-**	**139,066**	**12,082,710**	**12,221,776**	**12,298,857**
Borrowings from banks	-	11,293,723	-	11,293,723	12,063,027
Total liabilities	**-**	**11,293,723**	**-**	**11,293,723**	**12,063,027**

31. RISK MANAGEMENT (Continued)

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

2016	Level 1	Level 2	Level 3	Total fair value	Carrying value
Cash	-	75,128	-	75,128	75,128
Financial placements with banks	-	1,767,255	-	1,767,255	1,767,255
Receivables from finance lease activities	-	-	9,330,244	9,330,244	9,494,021
Total assets	**-**	**1,842,383**	**9,330,244**	**11,172,627**	**11,336,404**
Borrowings from banks	-	-	10,571,267	10,571,267	10,906,564
Total liabilities	**-**	**-**	**10,571,267**	**10,571,267**	**10,906,564**

The fair values of cash and financial placements with banks are equal to their carrying values considering short-term maturities of these assets, which are granted at interest rates which correspond to market conditions.

The fair values of finance lease receivables and borrowings are calculated by applying the technique of discounting future cash flows using the market yield curve, taking into account the maturity and market interest rates.

32. CAPITAL MANAGEMENT

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

In accordance with the Law on Finance Lease (“RS Official Gazette”, no. 55/2003, 61/2005, 31/2011 and 99/2011), for the performance of finance lease transactions the object of which is a movable property, the pecuniary portion of the initial capital of the lessor cannot be lower than the dinar equivalent of EUR 500,000 at the official median 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 5,000,000 at the official median exchange rate as at the payment date. The Company has met the threshold of EUR 5,000,000 of the initial capital of the lessor and financed immovable property under finance lease agreements.

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 median exchange rate as of the calculation day, depending on the leased assets.

32. CAPITAL MANAGEMENT (Continued)

As of 31 December 2017, the Company's stake capital amounts to RSD 960,374 thousand (31 December 2016: 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 Company's capital is significantly above the predicted minimal level.

On 27 December 2017, the General Assembly of the Company passed the Decision on distribution of profit and interim profit to the Parent Bank in the amount of RSD 140,000 thousand, following the strategy of dividend payments to the shareholders of the Intesa Sanpaolo Group. Considering the amount of the Company's basic capital, this payment does not affect the fulfilment of the capital requirement.

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

33. LEASED ASSETS INSURANCE

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

In addition, insurance representation is a part of global practices in lease companies operations, while on our market this has been made possible in 2015 by creating relevant regulatory framework through amendments to the Law on Insurance.

Recognizing the need to reduce the level of risk for the clients and for the leasing companies through insurance of the leased asset from certain risks and ensuring adequate coverage, the Company introduced a service of representation in insurance in 2016 after obtaining consent of the National Bank of Serbia, and signed contracts with seven insurance companies. Trough providing insurance policies customers are provided with additional benefits by enabling the best insurance conditions and comparable offers of all insurance companies that the Company cooperates with, the financing of insurance premiums in monthly instalments at a price of one-time payment, as well as through the help in the collection of claims and giving advice on insurance scope and insurance coverage.

The main types of insurance that the Company offers are car insurance, which accounts for almost 92.4%, of the portfolio, and property insurance accounting to 7.6%.

The level of the contracted gross premium for the whole portfolio at the end of 2017 was increased by 33.7% as compared to the previous year and it amounted to RSD 237 million.

34. EXTERNAL REGULATORS' CONTROLS

During 2017, the Company was not subject to any supervisions by the Tax Administration.

During 2017, the Company was not subject to any supervisions by the National Bank of Serbia.

35. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

In accordance with Article 18 of the Law on Accounting, the Company performed the reconciliation procedure of receivables and payables with its debtors and creditors with the balance as of 31 December 2017, and it maintains credible documentation on the circularization process.

The total number of reconciled finance lease contracts was 1,101 and the respective amount of receivables from finance lease activities was RSD 6,958,112 thousand. There were no unreconciled receivables from operating lease activities.

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

At 31 December 2017, the Company also reconciled its liabilities with creditors.

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

36. CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following items:

	2017	2016
Current accounts in RSD (Note 15)	139,066	75,128
Foreign currency accounts (Note 16)	-	1,767,255
Balance as of 31 December	**139,066**	**1,842,383**

37. EVENTS AFTER THE REPORTING PERIOD

(a) In January 2018, the Company repaid a short-term revolving loan in RSD granted by Banca Intesa a.d. Belgrade, in the amount of RSD 60,000 thousand, due to the postponement of the new financial lease agreements.

(b) The Company has carried out the calculation of impairment of finance lease receivables and other financial instruments – securities, in accordance with the requirement of the new IFRS 9 "Financial Instruments", which is effective for annual periods beginning on or after 1 January 2018 and, which will be applied by the Company starting from 1 January 2018.

37. EVENTS AFTER THE REPORTING PERIOD (Continued)

(b) The calculated effect of the first application of IFRS 9 as of 1 January 2018 amounts to RSD 15,299 thousand and is the result of an increase in the level of impairment of financial assets by the same amount, as presented in the table below:

	Amount in RSD thousand
Impairment of receivables from finance lease activities	12,262
Impairment of securities	3,037
Total additional impairment	**15,299**

This amount was recorded in the Company's books of account on 9 February 2018 as an adjustment to the opening balance of retained earnings in 2018 (under 3 January 2018).

There were no other significant events after the reporting period which would require adjustments or disclosures in the notes to financial statements of the Company for the year ended 31 December 2017.

Belgrade, 23 February 2018

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