INTESA LEASING d.o.o. BELGRADE

Financial Statements as of and for the Year Ended 31 December 2011

and

Independent Auditor's Report

CONTENTS

Tel: +381 11 32 81 399
Fax: +381 11 32 81 808
www.bdo.co.rs

Knez Mihailova 10
11000 Beograd
Republika Srbija

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

INDEPENDENT AUDITOR'S REPORT

TO THE OWNER OF INTESA LEASING d.o.o. BELGRADE

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 2011, and the income statement, 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. The statistical annex represents an integral part of these financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Accounting and Auditing ("Official Gazette of the Republic of Serbia", no. 46/2006 and 111/2009), Law on Finance Lease ("Official Gazette of the Republic of Serbia", no. 55/2003, 61/2005 and 31/2011) and relevant regulations of the National Bank of Serbia which govern lessors' financial reporting, 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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 2011, and its financial performance and its cash flows for the year then ended, in accordance with the Law on Accounting and Auditing, Law on Finance Lease and relevant regulations of the National Bank of Serbia which govern lessors' financial reporting.

INDEPENDENT AUDITOR'S REPORT

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

Other Matter

The financial statements of the Company as of and for the year ended 31 December 2010 were audited by another auditor who expressed an unmodified opinion on those statements on 21 April 2011.

Belgrade, 15 March 2012

Ksenija Ristic Kostic
Certified Auditor

INCOME STATEMENT
For the Year Ended 31 December 2011
In RSD thousand

	Note	2011	2010
OPERATING INCOME AND EXPENSES			
Interest income from finance lease	5	335,425	316,164
Interest expense from finance lease	5	(141,657)	(142,363)
Net interest income		**193,768**	**173,801**
Operating income from finance lease activities	6	82,896	75,895
Operating expense from finance lease activities	7	(26,960)	(20,189)
OPERATING PROFIT		**249,704**	**229,507**
OTHER INCOME AND EXPENSES			
Net interest income, foreign exchange gains and effects of foreign currency clause	8	120,205	111,464
Net gains on sale of intangible assets, property, plant, equipment and other assets	9	438	-
Net losses on sale of intangible assets, property, plant, equipment and other assets	9	-	(44)
Net losses from changes in value of assets	10	(76,586)	(81,179)
Gains on sale		-	138,272
Losses on sale		-	(138,823)
Operating expenses	11	(67,271)	(56,648)
Salaries, benefits and other personal expenses	12	(70,038)	(63,561)
Depreciation and amortization expense	13	(7,121)	(5,719)
Provisions	14	(249)	(452)
Other income	15	43,828	17,929
Other expenses	16	(31,054)	(598)
		(87,848)	**(79,359)**
PROFIT BEFORE TAX		**161,856**	**150,148**
INCOME TAXES	17		
Current tax expense		(24,808)	(21,923)
Deferred tax expense		-	(6,279)
Deferred tax income		213	-
PROFIT FOR THE YEAR		**137,261**	**121,946**

The notes on pages 11 to 67
are an integral part of these financial statements.

The accompanying financial statements were approved for issue on 25 February 2012 by the Company's Director and were signed on behalf of the Company by:

Intesa Leasing doo Beograd

Slavko Dukic
Director of Finance and
Operational Activities Sector

Vlastimir Vukovic
Director

BALANCE SHEET
As of 31 December 2011
In RSD thousand

	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Intangible assets	18	14,388	9,587
Property, plant and equipment	19	11,195	12,032
Long-term receivables from finance lease	20	2,868,089	2,679,053
		2,893,672	**2,700,672**
Current assets			
Inventories	21	1,174	1,728
Finance lease assets repossessed in exchange of uncollectible receivables	21	140,835	101,154
Leased assets		110,225	-
Short-term receivables from finance lease	22	1,859,526	1,545,996
Other receivables from finance lease	23	30,358	16,158
Receivables from operating activities	24	6,059	6,545
Short-term financial placements	25	1,152,682	1,130,011
Cash and cash equivalents	26	378,737	375,388
Value added tax and accruals	27	99,555	67,584
		3,779,151	**3,244,564**
Deferred tax assets	17(c)	**495**	**282**
TOTAL ASSETS		**6,673,318**	**5,945,518**
EQUITY AND LIABILITIES			
Equity	28		
Stake capital		960,374	960,374
Retained earnings		301,141	163,880
		1,261,515	**1,124,254**
Long-term provisions and liabilities			
Long-term provisions	29	332	146
Long-term borrowings in the country	30	848,420	735,483
Long-term borrowings from abroad	30	3,477,549	1,641,703
		4,326,301	**2,377,332**
Current liabilities			
Short-term borrowings	31	900,646	2,299,345
Liabilities from finance lease activities	32	-	220
Interest and financing costs payable	32	5,407	4,059
Liabilities for salaries and other employee benefits		96	-
Other liabilities	33	54,381	31,099
Value added tax, other public charges and accruals	34	100,164	87,286
Income tax payable		24,808	21,923
		1,085,502	**2,443,932**
TOTAL EQUITY AND LIABILITIES		**6,673,318**	**5,945,518**
OFF-BALANCE SHEET ITEMS		**528,962**	**-**

The notes on pages 11 to 67
are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2011
In RSD thousand

	Stake capital	Retained earnings	Total
Balance as of 1 January 2010	**960,374**	**41,934**	**1,002,308**
Profit for the year	-	121,946	121,946
Balance as of 31 December 2010	**960,374**	**163,880**	**1,124,254**
Profit for the year	-	137,261	137,261
Balance as of 31 December 2011	**960,374**	**301,141**	**1,261,515**

The notes on pages 11 to 67
are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2011
In RSD thousand

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	**2,697,910**	**2,296,691**
Receipts from finance lease placements	2,130,455	1,710,681
Receipts and advances received from finance lease activities	393,622	362,738
Receipts from rent and sales and other advances received	42,429	117,862
Other inflow from ordinary operations	131,404	105,410
Cash outflow from operating activities	**(3,159,613)**	**(1,997,085)**
Payment of liabilities and advance payments in respect of finance lease activities	(2,824,071)	(1,790,827)
Other payments and advances paid	(83,000)	(61,933)
Payments for salaries, benefits and other personal expenses	(71,931)	(58,342)
Income tax paid	(42,138)	-
Other public charges paid	(90,796)	(80,698)
Other outflows from ordinary operations	(47,677)	(5,285)
Net cash flows (used in)/from operating activities	**(461,703)**	**299,606**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	**103,607**	**93,771**
Proceeds from sales of intangible assets, property, plant and equipment and other assets	824	481
Interests received from investing activities	102,783	93,290
Cash outflow from investing activities	**(45,905)**	**(210,081)**
Purchase of intangible assets, property, plant and equipment	(12,853)	(16,217)
Other financial placements (net outflows)	(33,052)	(193,864)
Net cash flows from/(used in) investing activities	**57,702**	**(116,310)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflow from financing activities	**402,659**	**-**
Proceeds from long-term and short-term borrowings (net inflows)	402,659	-
Cash outflow from financing activities	**-**	**(547,718)**
Repayment of long-term and short-term borrowings (net outflows)	-	(547,718)
Net cash flows from/(used in) financing activities	**402,659**	**(547,718)**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(1,342)**	**(364,422)**
Cash and cash equivalents, beginning of the year	375,388	756,316
Foreign exchange gains/(losses) on translation of cash and cash equivalents, net	4,691	(16,506)
Cash and cash equivalents, end of the year (Note 26)	**378,737**	**375,388**

The notes on pages 11 to 67
are an integral part of these financial statements.

STATISTICAL ANNEX
For the Year Ended 31 December 2011
In RSD thousand

I GENERAL CORPORATE INFORMATION

	2011	2010
Number of months of operations (1 to 12)	12	12
Size indication (1 to 3)	3	3
Ownership structure indication (1 to 5)	2	2
Number of foreign entities holding a share in capital	-	1
Average number of employees, based on the number at the end of each month (whole number)	27	28

II MOVEMENTS IN INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated depreciation/ amortization	Net book value
1. Intangible assets			
Balance at the beginning of the year	15,524	(5,937)	9,587
Additions during the year	6,970	-	6,970
Disposals	(5,530)	-	(2,169)
Revaluation	-	-	-
Balance at end of year	**16,964**	**(2,576)**	**14,388**
2. Property, plant and equipment			
Balance at the beginning of the year	22,666	(10,634)	12,032
Additions during the year	4,544	-	4,544
Disposals	(2,915)	-	(5,381)
Revaluation	-	-	-
Balance at the end of the year	**24,295**	**(13,100)**	**11,195**

III INVENTORY STRUCTURE

	2011	2010
Inventories of materials used in the process of service delivery	-	-
Leased assets and other assets repossessed in exchange of uncollectible receivables	140,835	101,154
Leased assets	-	-
Non-current assets held for sale and assets from discontinued operations	-	-
Advances paid	111,399	1,728
Total	**252,234**	**102,882**

STATISTICAL ANNEX (Continued)
For the Year Ended 31 December 2011
In RSD thousand

IV CAPITAL STRUCTURE

	2011	2010
Share capital	**-**	**-**
Out of which: foreign capital	-	-
Stakes of a limited liability company	**960,374**	**960,374**
Out of which: foreign capital	-	12,433
Stakes of partnership or limited partnership	**-**	**-**
Out of which: foreign capital	-	-
Total	**960,374**	**960,374**

V SHARE CAPITAL STRUCTURE

	2011	2010
Ordinary shares		
Number of ordinary shares	**-**	**-**
Nominal value of ordinary shares – total	-	-
Preference shares	**-**	**-**
Number of preference shares	-	-
Nominal value of preference shares – total	-	-
Total - nominal value of shares	**-**	**-**

VI RECEIVABLES AND LIABILITIES

	2011	2010
Receivables during the year from insurance companies (credit turnover without opening balance)	1,098	-
VAT paid for purchase of goods and services (debit turnover without opening balance)	431,880	277,797
Liabilities for net salaries and benefits (credit turnover without opening balance)	45,162	40,902
Liabilities for tax on salaries and benefits paid by employee (credit turnover without opening balance)	6,976	6,377
Liabilities for contributions on salaries and benefits paid by employee (credit turnover without opening balance)	8,197	7,674
Liabilities for dividends, share in profit and personal income of the employer (credit turnover without opening balance)	-	-
Liabilities to individuals in respect of contract fees (credit turnover without opening balance)	625	281
VAT payable (annual amount per Tax returns)	500,384	341,172
Control total	**994,322**	**674,203**

STATISTICAL ANNEX (Continued)
For the Year Ended 31 December 2011
In RSD thousand

VII OTHER COSTS AND EXPENSES

	2011	2010
Materials used in the process of service delivery, fuel and energy	3,807	3,504
Spare parts and tools	1,180	1,291
Transportation costs	2,001	2,239
Insurance premiums	679	757
Fairs exhibit costs	739	11
Advertising costs	6,636	5,699
Intellectual service costs	12,407	9,409
Entertainment	3,296	3,420
Bank charges	4,248	1,686
Membership fees	906	828
Rent	4,975	4,699
Rent of land	-	-
Maintenance costs	7,877	4,172
Research and development	-	-
Salaries and benefits (gross)	60,335	54,953
Taxes and contributions on salaries and benefits paid by employer	8,197	7,685
Compensations to individuals (gross) in respect of contracts	361	98
Compensations to the members of Board of Directors and Supervisory Board (gross)	-	-
Other personal expenses and compensations	1,145	825
Other taxes, contributions and customs	12,943	16,773
Interest on loans, rent and sales	45	155
Foreign exchange losses	-	408,813
Losses from foreign currency clause	-	-
Expenses arising from share in losses of subsidiaries and joint ventures	-	-
Expenses for humanitarian, cultural, health, educational, scientific and religious activities, environmental protections and sports activities	19,136	517
Control total	**150,913**	**527,534**

VIII OTHER INCOME

	2011	2010
Interest on loans, rent and sales	87,696	73,681
Foreign exchange gains	14,937	-
Gains from foreign currency clause	17,617	446,751
Dividends and income arising from share in profit of subsidiaries and joint ventures	-	-
Control total	**120,250**	**520,432**

STATISTICAL ANNEX (Continued)
For the Year Ended 31 December 2011
In RSD thousand

IX OTHER INFORMATION

	2011	2010
Calculated customs and other import duties (total annual amount according to calculation)	-	-
State grants	-	-
Donations from abroad and other grants	-	-
Control total	-	-

The notes on pages 11 to 67
are an integral part of these financial statements.

1. CORPORATE INFORMATION

The Limited Liability Company for finance lease "Intesa Leasing" d.o.o. Belgrade (hereinafter referred to as the "Company") was registered by the Decision of the Commercial Court on 3 September 2003 (formerly "Delta Leasing"). The Company was reregistered in the Business 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 of the Serbian Business Registers Agency no. 100536/2005. On 16 December 2005, pursuant to the aforementioned Decision of the Serbian Business Registers Agency, the increase in the stake capital was registered, so the 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 of the founder, Banca Intesa a.d. Belgrade in the total capital was 51%, while the stake of the foreign owner, CIB Leasing LTD, Budapest, Hungary was 49%.

Pursuant to the Decision of the Serbian Business Register Agency no. 254739/2006 dated 29 December 2006, recapitalization of the Company was carried out. The stake capital was increased to the amount of EUR 5,350,000.00, while the proportion 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 recapitalization of the Company was performed. The stake capital was increased to the amount of EUR 10,152,452.62, whereby the proportion of the respective founders' stakes was changed. The share of Banca Intesa a.d. Belgrade in the total stake capital increased to 98.7%, while the share of 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 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.

The Company is registered for finance lease activities pursuant to the Decision of the National Bank of Serbia dated 24 January 2006, by which finance lease activities were harmonized with the Law on Finance Lease.

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

The Company operates as a subsidiary of Banca Intesa a.d. Belgrade, and, therefore, the stakeholder is in charge of consolidation of financial statements.

In accordance with the criteria set forth in the Law on Accounting and Auditing ("Official Gazette of the Republic of Serbia", no. 46/2006 and 11/2009), the Company is classified as a large-size legal entity.

The Company is domiciled in Belgrade, no. 54, Cara Urosa Street.

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

As of 31 December 2011, the Company has 28 employees (31 December 2010: 28 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of the Financial Statements

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

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

Pursuant to the Resolution of the Republic of Serbia's Minister of Finance no. 401-00-1380/2010-16 dated 25 October 2010 ("RS Official Gazette", no. 77/2010 and 95/2010), the translation of International Financial Reporting Standards, including International Accounting Standards and Interpretations to standards issued respectively by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") by 1 January 2009, which are in effect as of the date of preparation of the financial statements, has been provided for and published.

By the date of preparation of the accompanying financial statements not all amendments to existing standards, new and revised standards and IFRIC interpretations published by IASB and IFRIC which are effective in the current reporting period, i.e., which are mandatory for the first time for the financial year beginning on 1 January 2011 have been officially translated by the Ministry of Finance of the Republic of Serbia. These amendments to standards and interpretations, as well as issued new and amended standards and IFRIC interpretations which are neither effective in the current reporting period, nor translated and published in the Republic of Serbia, are disclosed in Note 2.1(a) and (b).

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

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

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

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

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

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

The financial statements have been prepared under the historical cost convention, except where it is specifically indicated to be on a fair value basis, as specified in the accounting policies.

The financial statements are prepared under the going concern principle, which assumes that the Company will continue its operations in the foreseeable future.

The Company's financial statements are stated in thousands of Dinars, unless otherwise stated. The Dinar (RSD) is the functional and official reporting currency of the Company. All transactions in currencies that are not functional currency are considered to be transactions in foreign currency.

These financial statements were authorized for issue by the Director of the Company on 25 February 2012.

(a) New Standards, Amendments and Interpretations to Existing Standards Mandatory for the First Time for the Financial Year Beginning on 1 January 2011

- Revised IAS 24 "Related Party Disclosures" - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party.
- Amendment to IAS 32 "Financial Instruments: Presentation" - Classification of Rights Issues. This amendment relates to the rights issues offered for a fixed amount of foreign currency which were treated as derivative liabilities by the existing standard.
- Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters.
- Amendments to IFRIC 14 "IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirements. The amendments apply in limited circumstances: when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements.
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments". This interpretation clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially.
- Amendments to various standards and interpretations (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 21, IAS 28, IAS 31, IAS 34 and IFRIC 13), which are part of the IASB's annual IFRS improvements project published in May 2010. These amendments result primarily in removal of inconsistencies and terminology or editorial changes. The effective dates vary standard by standard but most are effective for annual periods beginning on or after either 1 July 2010 or 1 January 2011.

The Company's management considers that the majority of the above mentioned amendments to the existing standards and interpretations are not relevant for the Company's operations.

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

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

(b) New Standards, Interpretations and Amendments to Existing Standards that are not yet effective and have not been early adopted by the Company

The following new and amended standards and IFRIC interpretations have been issued but are not effective for the annual reporting period beginning on 1 January 2011. They have not been early adopted by the Company.

- Amendment to IAS 1 “Presentation of Financial Statements” – Other comprehensive income (effective for annual periods beginning on or after 1 July 2012).
- Amendment to IAS 12 “Income Taxes” - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012).
- Revised IAS 19 “Employee Benefits” (effective for annual periods beginning on or after 1 January 2013).
- Revised IAS 27 “Separate Financial Statements” (effective for annual periods beginning on or after 1 January 2013).
- Revised IAS 28 “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after 1 January 2013).
- Amendments to IFRS 1 “First-time Adoption of IFRS” - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011).
- Amendment to IFRS 7 “Financial Instruments: Disclosures” - Transfer of Financial Assets (effective for annual periods beginning on or after 1 July 2011).
- IFRS 9 “Financial instruments” (effective for annual periods beginning on or after 1 January 2013). This standard addresses the classification and measurement of financial assets.
- IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after 1 January 2013).
- IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after 1 January 2013).
- IFRS 12 “Disclosure of Interests in Other Entities” (effective for annual periods beginning on or after 1 January 2013).
- IFRS 13 “Fair Value Measurement” (effective for annual periods beginning on or after 1 January 2013).

2.2. Comparative Figures

Comparative figures represent the audited financial statements of the Company for the year ended 31 December 2010.

In order to conform the presentation of prior year figures to the current reporting period, 2010 comparative data for liabilities for unused vacations was reclassified from Long-term provisions (Note 29) to Other liabilities (Note 33).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Income and Expense Recognition

(a) Interest Income and Expense

Interest income and expense, including penalty interest are recognized on an accrual basis based on obligatory terms defined by a contract signed between the Company and clients or the Company and banks.

Income and expenses are recognized in income statement using the contracted nominal interest rate.

Penalty interest is not charged on accounts receivable subject to collection proceedings.

(b) Fee Income

Fee income on approval of long-term financial placements, i.e. origination fees are calculated and collected in advance in accordance with finance lease agreements. Fee income is deferred over the period of finance lease agreement using the straight-line method.

(c) Fee and Commission Expense

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

(d) Other Expenses

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

3.2. Foreign Currency Translation

Balance sheet and income statement items stated in the financial statements are valued by using currency of primary economic environment (functional currency). As disclosed in Note 2.1, the accompanying financial statements are stated in thousands of Dinars (RSD), which represents the functional and official reporting currency of the Company.

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

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

Foreign exchange gains or losses arising upon the translation of assets, liabilities and transactions are credited or debited as appropriate, to the income statement, as foreign exchange gains or losses (Note 8).

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Foreign Currency Translation (Continued)

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

Currency	31 December 2011	31 December 2010
CHF	85.9121	84.4458
EUR	104.6409	105.4982

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

Exchange rate description	Exchange rates for the contracted foreign currency clause - EUR		Exchange rates for the contracted foreign currency clause - CHF	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Selling rate for foreign exchange of Banca Intesa	107.2569	108.1357	88.4895	86.1347
Selling rate for cash of Banca Intesa	107.2569	108.1357	88.4895	86.1347
Middle rate of NBS	104.6409	105.4982	85.9121	84.4558
Selling rate for foreign exchange of NBS	104.6548	-	-	-
Selling rate for cash of NBS	105.3734	-	-	-

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

Receivables and liabilities, in which the derivatives are embedded, i.e. which are tied to foreign currency clause or some other variable, respectively, are revalued in accordance with contract clauses. Income and expenses resulting from the application of foreign currency clause are recorded in the income statement, as gains/losses from changes in value of assets and liabilities.

During 2011, the Company has used the exchange rate for the translation of long-term receivables for finance lease by applying contracted exchange rates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Intangible Assets

Intangible assets acquired separately are capitalized at cost as of the date of acquisition.

Subsequent to initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated 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 straight-line method of calculating amortization for intangible assets whereas the useful life is 5 years. Annual amortization rate of intangible assets is 20%.

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

Gains or losses arising from derecognizing of an intangible asset are measured as the difference between the net selling price and the net book value of the intangible asset, and are recognized in the income statement when the asset is derecognized.

3.4. Property, Plant and Equipment

Property, plant and equipment of the Company at 31 December 2011 comprise equipment.

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

Cost includes purchase price and all directly attributable costs of bringing the asset to the appropriate working condition and location.

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

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

Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the net book value of the asset) is included in the income statement when the asset is derecognised.

Depreciation of equipment is provided 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 recognised as an expense in the period in which it was incurred (Note 13).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Property, Plant and Equipment (Continued)

The principal annual depreciation rates in use are as follows:

Type of equipment	Useful life (no. of years)	Depreciation rate
Computer equipment	5	20.0%
Mobile phones	3.33	30.0%
Passenger vehicles	4	25.0%
Office furniture	8	12.5%
Photocopying equipment	7	14.3%
Calculating machines	6.06	16.5%
Air conditioners	6.06	16.5%
Refrigerators, stoves and similar devices	8	12.5%
Cleaning equipment	5	20.0%
TV, radio and video equipment	8	12.5%
Telephone exchanges and fixed phones	14.28	7.0%
Cellular telephones	8	12.5%
Canvas (carpets, curtains and other)	8	12.5%
Illuminating electrical advertisements	9.09	11.0%
Other sundry assets	8	12.5%

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

The calculation of the depreciation and amortization for tax purposes is determined by the Law on Corporate Income Tax ("RS Official Gazette" no. 25/2001, 80/2002, 43/2003, 84/2004 and 18/2010) and the Rules on the Manner of Fixed Assets Classification in Groups and Depreciation for Tax Purposes ("RS Official Gazette", no. 116/2004 and 99/2010). Different depreciation methods used for the financial reporting purposes and the tax purposes give raise to deferred taxes (Note 17(c)).

3.5. Impairment of Non-financial Assets

In accordance with adopted accounting policy, at each reporting date, the Company's management reviews the carrying amounts of the Company's intangible assets and property 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, being the higher of an asset's fair value less costs to sell and value in use. Impairment losses, representing a difference between the carrying amount and the recoverable amount of tangible and intangible assets, are recognized in the income statement as required by IAS 36 "Impairment of Assets".

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Receivables from Finance Lease

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

At initial recognition, the Company as a lessor recognizes finance lease in the balance sheet as long-term financial placements (receivables) at cost of lease asset increased by the future interest.

Gross investment in the lease is the aggregate of: the minimum lease payments receivable by the lessor under a finance lease, and any unguaranteed residual value accruing to the lessor.

Net investment in the lease is the gross investment in the lease less unearned finance income that is calculated using the interest rate defined in the finance lease agreement, and presented analytically within accounts receivable from finance lease.

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

Unearned finance income is calculated under the terms of the lease and recorded in the balance sheet within receivables from finance lease.

Finance income, i.e. interest income on finance lease, is recognized in the manner that reflects constant periodic yield on the residual amount of net investments in finance lease.

3.7. Accounts Receivable

Accounts receivable are stated at their invoiced values, less allowance for impairment.

3.8. Impairment of Financial Assets

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

A financial asset is impaired, and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial assets or a group of financial assets that can be reliably estimated.

The methodology of calculation of the allowances for impairment of financial assets is defined by the Company's "Policy for Classification of Receivables".

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Impairment of Financial Assets (Continued)

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

(a) Good assets

A1 - very good receivables
A2 – standard receivables
B1 – receivables from the debtors with minor difficulties in payment

(b) Bad assets

B2 - receivables from the debtors with significant difficulties in payment
C1 – doubtful receivables
C2 – uncollectible receivables/loss

Since a leased asset has the character of collateral, when assessing risk and the amount of allowance for impairment, the type of the leased asset is also taken into account. All leased assets are divided into four groups (A, B, C and D) according to their marketability.

As the assets leased out are the property of the Company, in case of an agreement termination the Company has the full right to sell them after the seizure. Therefore, assets with high marketability would be easily sold, and part of or the entire principal could be collected. In such a way:

(a) Passenger vehicles that are easily marketable are classified into group A and they have a 60% reduction of future principal and overdue receivables;

(b) Commercial vehicles that are easily marketable are classified into group B and they have a 60% reduction of future principal and overdue receivables;

(c) Equipment that is less marketable is classified into group C and has a 40% reduction of future principal and overdue receivables; and

(d) Agricultural machinery that is less marketable is classified into group C and it has a 30% reduction of future principal and overdue receivables.

In cases when a user does not own the leased asset (the client evaded or never took the asset), marketability of the leased asset is not taken into account when calculating an allowance for impairment.

Percentages of allowance for impairment of financial assets are:

(a) 0% for receivables by members of Intesa Sanpaolo Group, and first-class international banks;
(b) 0 - 3% for class A1;
(c) 3 - 5% for class A2;
(d) 5 – 10% for class B1;
(e) 10 – 30% for class B2;
(f) 30 – 70% for class C1; and
(g) 70 – 100% for class C2.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Impairment of Financial Assets (Continued)

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

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

3.9. Inventories

If premature termination of finance lease contract occurs, the leased asset is seized while the value of financial placement, i.e. receivable is reclassified to inventories.

The repossessed leased asset recognized as inventory is measured at fair value. Valuation of repossessed leased asset is performed regularly by a certified appraiser, with any change in value due to significant changes in the market price or changes in the physical condition of the asset, and at least once during the period of one year from the previous assessment. During the assessment, market factors, depreciation, as well as technical condition of the leased asset are taken into consideration.

For the amount of the difference between the receivable based on the finance lease agreement (unamortized value) and the assessed value of the leased asset, a receivable for damage compensation is recorded within receivables from operating activities, for which the allowance for impairment is established in the same amount.

3.10. Cash and Cash Equivalents

Cash and cash equivalents comprise cash on current accounts held with banks and the obligatory reserve in foreign currency.

The Company performs domestic payment and settlement transactions though its current accounts held with Banca Intesa a.d. Belgrade. The Company performs payment and settlement transactions in foreign currency through its account held with Banca Intesa a.d. Belgrade.

At the reporting date, the balance of foreign currency accounts is translated into RSD at the official exchange rates published by the National Bank of Serbia, prevailing at the balance sheet date.

In accordance with the National Bank of Serbia Decision on the Obligation of Lessors to Maintain a Reserve Balance ("RS Official Gazette" no. 21/2010), the Company, as a lessor, has an obligation to calculate and allocate the obligatory reserve to a special account opened with a bank.

The base for the calculation of the reserve is the carrying amount of liabilities arising from loans, other borrowings and additional payments received from abroad since 10 December 2005, as determined on the last day of the month preceding the calculation. By way of exception, the lessor does not calculate reserves on the amount of payments made by founders for the purpose of increasing core capital, liabilities against funds received from international financial organisations, governments and financial institutions founded by foreign states, as well as subordinated liabilities with the originally established maturity of at least 5 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Cash and Cash equivalents (Continued)

The Company is obliged to calculate and allocate the obligatory reserve on the 18th day of the a month at the rate of 10% on the basis for calculation determined in accordance with the balance of liabilities as of the last day in the preceding month. If the 18th of the month falls on a non-business day, reserves shall be allocated on the first preceding business day.

The Company is obliged to allocate the obligatory reserve for the accounting period to the special bank account, in EUR and US dollars.

If the calculated amount of reserves in the current accounting period is lower that the reserve balance on the bank account, the difference between the two balances can be used freely by the Company, but if it is higher, the Company is obliged to allocate the shortfall amount to the above mentioned account.

3.11. Borrowings

Borrowings are initially recognized at cost, being the fair value of consideration received less the related transaction expenses. After the initial recognition, interest-bearing borrowings and loans are measured at amortized cost.

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

3.12. Operating Liabilities

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

3.13. Provisions and Contingencies

Provisions are recognised when:

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

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

In accordance with IAS 19 "Employee Benefits", the Company has recognized the provision for retirement benefits (Note 29) and the liability for unused vacations (Note 33).

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

Provisions for legal proceedings represent the Company management's best estimates of the expenditures required to settle such obligations.

When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are derecognised (reversed) in income. Provisions are taken into account in accordance with their type and they can be used only for the expenses they were recognised initially for.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Provisions and Contingencies (Continued)

Provisions are not recognised for future operating losses.

Contingent liabilities are not recognized in the financial statements. They are disclosed (Note 35) unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

3.14. Employee Benefits

(a) Employee Taxes and Contributions for Social Security

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

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

(b) Other Employee Benefits - Retirement Benefits

In accordance with the General Collective Agreement ("RS Official Gazette", no. 50/2008, 104/2008 – Annex I and 8/2009 – Annex II), the Company is obliged to pay retirement benefits equal to three average salaries of the employee at the moment of payment, while the retirement benefit cannot be lower than three average salaries per employee in the Company at the moment of payment i.e. three average salaries per employee in the Republic of Serbia, according to the latest published information of the competent state statistics office. There is no fund for these payments.

The provision for these benefits and the related expenses are determined using the actuarial 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 years of service of employees who participate in the plan.

The past service cost is recognized as an expense on a straight line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14. Employee Benefits (Continued)

(c) Short-Term Compensated Absences

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

The Company neither has pension funds nor share-based remuneration options; consequently there are no identified obligations in that respect as of 31 December 2011.

3.15. Taxes and Contributions

(a) Income Taxes

Current Income Tax

Current income tax is calculated and paid in accordance with the effective Law on Corporate Income Tax ("RS Official Gazette", no. 25/2001, 80/2002, 43/2003, 84/2004 and 18/2010) and by-laws.

Income tax is payable at the rate of 10% on the tax base reported in the annual corporate income tax return, and can be reduced by any applicable tax credits. The tax base includes the taxable profit, determined by adjusting the taxpayer's result (profit or loss) reported in the income statement, in the manner prescribed by this Law.

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

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

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. Losses of the current period may be transferred to the account of profit determined in the annual tax return from the future accounting periods, but not longer than 5 ensuing years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15. Taxes and Contributions (Continued)

(a) Income Taxes (Continued)

Deferred Income Tax

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

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

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

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 the a deferred tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at or after the balance sheet date.

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

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

Taxes, contributions and other duties that are not related to the Company's operating result include property taxes, and various other taxes and contributions paid pursuant to republic and municipal regulations. These taxes and contributions are included within operating expenses (Note 11).

3.16. Related Party Disclosures

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

Relations between the Company and its related parties are regulated at contractual basis. Outstanding balances of receivables and liabilities at the reporting date, as well as transactions occurred during the reporting periods with related parties are separately disclosed in notes to the financial statements (Note 36).

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Use of Estimates

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

These estimations and related assumptions are based on information available as 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 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 any objective evidence that a financial asset is impaired.

A financial asset is deemed to be impaired, and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the placement and that loss event (or events) has an impact on the estimated future cash flows of the financial asset.

In determining whether an impairment loss should be recorded in the income statement, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of finance lease placements before the decrease can be identified with an individual finance lease placements in that portfolio. The evidence may include observable data indicating that there has been an adverse change in the payment status of debtor of a Company, or national or local economic conditions that correlate with defaults on assets of the Company.

Accordingly, the Company applies the classification of receivables pursuant to the internal by-law "Policy of Receivables Classification" adopted on 1 March 2009.

Useful Lives of Intangible Assets, Property, Plant and Equipment

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

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

The impact of any changes in these assumptions could be material to the Company's financial position, and the results of its operations. As an example, if the Company was to shorten the average useful life for 1%, this would result in additional depreciation and amortization expense of approximately RSD 323 thousand for the twelve-month period.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Impairment of Non-Financial Assets and Inventories

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

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

Deferred Tax Assets

Deferred tax assets are recognized for all tax losses and/or tax credits to the extent to which taxable profit will be available against which the unused tax losses /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 of in which it was created and the amount of future taxable profits and the tax policy planning strategy.

Retirement Benefits

The costs of defined employee benefits payable upon the termination of employment, i.e. retirement in accordance with the legal requirements, and the costs of jubilee awards are determined based on the actuarial valuation. The actuarial valuation includes an assessment of the discount rate, future movements in salaries, mortality rates and future increases in post-employment benefits. As these plans are long-term ones, significant uncertainties influence the outcome of the assessment. The actuarial valuation assumptions are disclosed in Note 29 to the financial statements.

Were the discount rate used to differ by 1% from management's estimates, the provision for retirement benefits would be an estimated RSD 74 thousand lower or RSD 97 thousand higher in comparison with the provision for retirement benefits recognized in the Company's financial statements as of and for the year ended 31 December 2011.

Provisions for Litigations

The Company is subject to a small number of claims incidental to the normal conduct of its business. The Company routinely assesses the likelihood of any adverse judgments or outcomes to these matters 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 legal department, available facts, identification of other potentially responsible parties and their ability to contribute, and prior experience. A provision is recognised when it is probable that an obligation exists for which a reliable estimate can be made of the obligation after careful analysis of the individual matter. The required provision may change in the future due to new developments and as additional information becomes available. Matters that are either possible obligations or do not meet the recognition criteria for a provision are disclosed, unless the possibility of transferring economic benefits is remote.

As of 31 December 2011, provisions were not established for litigations initiated against the Company, considering that the management estimated that it is not probable the outcome of the litigation shall affect the Company adversely.

5. INTEREST INCOME AND EXPENSE FROM FINANCE LEASE

	2011	2010
Interest income from finance lease		
Interest income from finance lease– new leased assets	316,654	289,476
Interest income from finance lease– used leased assets	4,962	6,705
Penalty interest	13,809	19,983
Total	**335,425**	**316,164**
Interest expense from finance lease		
Interest expense on borrowings from related parties in the country	44,249	53,145
Interest expense on borrowings from related parties abroad	97,408	89,218
Total	**141,657**	**142,363**
Net interest income	**193,768**	**173,801**

6. OPERATING INCOME FROM FINANCE LEASE ACTIVITIES

	2011	2010
Income from delivering services– finance lease origination fees	21,929	19,832
Income from warnings	5,159	6,742
Intercalary interest income	36,476	39,208
Income from re-billed expenses to customers	19,332	10,113
Total	**82,896**	**75,895**

7. OPERATING EXPENSE FROM FINANCE LEASE ACTIVITIES

	2011	2010
Insurance of leased assets	14,151	9,600
Storage of repossessed leased assets	2,197	3,103
Expenses from repossessing leased assets	1,545	1,890
Registration fees of lease agreements	2,544	1,590
Other expenses from finance lease activities	6,523	4,006
Total	**26,960**	**20,189**

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

	2011	2010
Net interest income	87,651	73,526
Net foreign exchange gains/(losses)	14,937	(408,813)
Net income from foreign currency clause application	17,617	446,751
Total	**120,205**	**111,464**

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

	2011	2010
Gains on sale of intangible assets and equipment	438	774
Losses on sale of intangible assets and equipment	-	(818)
Net gains/(losses) on sale of intangible assets and equipment	**438**	**(44)**

10. NET LOSSES FROM CHANGES IN VALUE OF ASSETS

	2011	2010
Gains from changes in value of receivables from finance lease	134,518	126,313
Impairment of receivables	(211,104)	(207,492)
Net losses from changes in value of assets	**(76,586)**	**(81,179)**

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

	2011	2010
Impairment of receivables from finance lease overdue more than 60 days	116,985	109,137
Impairment of receivables overdue up to 60 days and future receivables from finance lease	49,912	56,327
Impairment of trade receivables overdue more than 60 days	9,229	4,470
Impairment of trade receivables overdue more up to 60 days	2,060	1,436
Impairment of short-term receivables for damages by agreements and general terms upon agreement termination	11,398	12,874
Impairment of short-term receivables for damages upon assessments	21,520	23,248
Total impairment losses	**211,104**	**207,492**

11. OPERATING EXPENSES

	2011	2010
Maintenance costs (a)	7,877	4,172
Advertisement	6,636	5,699
Consulting services (b)	5,023	1,814
Rental expenses	4,975	4,699
Bank charges	4,248	1,686
Entertainment	3,296	3,420
Youth and student association services	2,832	2,183
Fuel	2,037	1,997
Legal services (c)	2,027	1,220
Transportation and postal service	2,001	2,239
Material	1,770	1,507
Professional development and literature	1,200	1,568
Spare parts and tools	1,180	1,291
Audit services	1,095	2,504
Membership fees	906	828
Insurance premiums	679	757
Translation services and similar services	230	180
Indirect taxes	12,943	16,773
Other services (d)	6,316	2,111
Total	**67,271**	**56,648**

(a) Maintenance costs comprise:

	2011	2010
“Nova” software maintenance expenses	6,760	3,096
Maintenance of equipment	536	412
Other maintenance costs	581	664
Total	**7,877**	**4,172**

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

(c) An increase in the costs of legal services in comparison with 2010 was recorded due to the fact that the Company used legal services throughout the year in accordance with the Agreement on permanent representation with a law firm, while these costs had been present in 2010 starting from the month of April.

(d) The increase in the costs of other services was mostly affected by the costs of administrative, court and other fees which amounted to RSD 4,521 thousand in 2011.

12. SALARIES, BENEFITS AND OTHER PERSONAL EXPENSES

	2011	2010
Gross salaries	60,335	54,953
Payroll taxes and contributions	8,197	7,685
Service agreement compensations	361	46
Compensations to individuals based on other contracts	-	52
Other personal expenses and benefits	1,145	825
Total	**70,038**	**63,561**

13. DEPRECIATION AND AMORTIZATION EXPENSE

	2011	2010
Amortization of intangible assets (Note 18)	2,169	961
Depreciation of property, plant and equipment (Note 19)	4,952	4,758
Total	**7,121**	**5,719**

14. PROVISIONS

	2011	2010
Provision for retirement benefits (Note 29)	186	-
Provision for unused vacations (Note 33)	63	452
Total	**249**	**452**

15. OTHER INCOME

	2011	2010
Rental income	8,969	10,690
Release of provision for retirement benefits (Note 29)	-	5,414
Liabilities waives	70	1,082
Other income	34,789	743
Total	**43,828**	**17,929**

Rental income arises from the Agreement on business and technical cooperation with Delta Generali a.d.o. Belgrade for renting business premises.

Other income earned in 2011 mostly relates to the refund of withholding tax by Intesa Sanpaolo S.p.A., Milan and Intesa Sanpaolo S.p.A. Succursale de Paris, Paris in the total amount of RSD 34,224 thousand.

16. OTHER EXPENSES

	2011	2010
Expenses for humanitarian, cultural, health and educational purposes	19,136	517
Direct write-off of receivables	11,898	17
Other expenses	20	64
Total	**31,054**	**598**

Expenses for humanitarian, cultural, health and educational purposes incurred in 2011 mostly relate to the expenses arising from the Agreement on donation signed with the Basketball club “Radnicki”, Kragujevac in the amount of RSD 19,000 thousand.

Direct write-off of receivables relates to the three clients for which the bankruptcy proceedings were completed during 2011. The Company was not able to collect its registered receivables from the bankruptcy estate, and therefore upon completion of the proceedings the receivables were written-off.

17. INCOME TAXES

(a) Components of Income Taxes

Components of income tax expense are:

	2011	2010
Current tax expense	24,808	21,923
Deferred tax income	-	6,279
Deferred tax income	(213)	-
Total income tax expense	**24,595**	**28,202**

(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 the profit before income tax and income tax expense as per the Company's effective income tax rate for the years ended 31 December 2011 and 2010 is presented below:

	2011	2010
Profit before tax	**161,856**	**150,148**
Income tax at statutory rate of 10%	**16,186**	**15,015**
Non-deductible expenses	8,759	10,396
Reconciliation of income	(645)	(541)
Write-off of deferred tax assets	-	2,331
Adjustment of previously recognized deferred tax assets	-	522
Utilized tax credits based on investment in equipment in the current period	(136)	(189)
Other	431	668
Income tax expense	**24,595**	**28,202**
Effective tax rate	*15.20%*	*18.78%*

17. INCOME TAXES (Continued)

(c) Deferred Tax Assets

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

	2011	2010
Balance as of 1 January	**282**	**6,561**
Effects of temporary differences credited/ (charged) to the income statement	213	(6,279)
Balance as of 31 December	**495**	**282**

The following table represents the bases for recording of deferred tax income/(expense) and the effect on the income statement for the years ended 31 December 2011 and 2010:

	Deferred tax assets 2011	Income statement 2011	Deferred tax assets 2010	Income statement 2010
Temporary differences between the carrying value of equipment and intangible assets and their tax base	495	213	282	(184)
Tax losses	-	-	-	(3,472)
Investments in equipment	-	-	-	(292)
Non-arm's-length interest	-	-	-	(2,331)
	495	**213**	**282**	**(6,279)**

18. INTANGIBLE ASSETS

	Licenses and software	Intangible assets under development	TOTAL
COST			
Balance as of 1 January 2010	**9,381**	**-**	**9,381**
Additions during the year	1,844	7,610	9,454
Disposals	(3,311)	-	(3,311)
Balance as of 31 December 2010	**7,914**	**7,610**	**15,524**
Additions during the year	6,970	-	6,970
Transfer (from)/to	7,610	(7,610)	-
Disposals	(5,530)	-	(5,530)
Balance as of 31 December 2011	**16,964**	**-**	**16,964**
ACCUMULATED AMORTIZATION			
Balance as of 1 January 2010	**7,502**	**-**	**7,502**
Amortization (Note 13)	961	-	961
Disposals	(2,526)	-	(2,526)
Balance as of 31 December 2010	**5,937**	**-**	**5,937**
Amortization (Note 13)	2,169	-	2,169
Disposals	(5,530)	-	(5,530)
Balance as of 31 December 2011	**2,576**	**-**	**2,576**
NET BOOK VALUE AS OF:			
- 31 December 2011	**14,388**	**-**	**14,388**
- 31 December 2010	**1,977**	**7,610**	**9,587**

In 2011, the upgrade of the information system "Nova" was completed and the intangible assets under development were put into use; therefore, the overall increase in licenses and software with respect to these matters amounts to RSD 14,580 thousand.

The Company's management estimates there are no indications that intangible assets are impaired as of 31 December 2011.

19. PROPERTY, PLANT END EQUIPMENT

	Vehicles	Furniture	Other equipment	TOTAL
COST				
Balance as of 1 January 2010	**15,385**	**2,618**	**2,070**	**20,073**
Additions during the year	4,171	326	427	4,924
Disposals	(2,115)	(32)	(184)	(2,331)
Balance as of 31 December 2010	**17,441**	**2,912**	**2,313**	**22,666**
Additions during the year	3,671	175	698	4,544
Disposals	(2,342)	(36)	(537)	(2,915)
Balance as of 31 December 2011	**18,770**	**3,051**	**2,474**	**24,295**
ACCUMULATED DEPRECIATION				
Balance as of 1 January 2010	**6,085**	**822**	**914**	**7,821**
Depreciation (Note 13)	4,012	357	389	4,758
Disposals	(1,799)	(28)	(118)	(1,945)
Balance as of 31 December 2010	**8,298**	**1,151**	**1,185**	**10,634**
Depreciation (Note 13)	4,155	383	414	4,952
Disposals	(1,954)	(25)	(507)	(2,486)
Balance as of 31 December 2011	**10,499**	**1,509**	**1,092**	**13,100**
NET BOOK VALUE AS OF:				
- 31 December 2011	**8,271**	**1,542**	**1,382**	**11,195**
- 31 December 2010	**9,143**	**1,761**	**1,128**	**12,032**

During 2011, the Company purchased three and sold two passenger vehicles. In addition, the Company purchased computer equipment and furniture for regular business conduct.

The Company's management estimates there are no indications that equipment is impaired as of 31 December 2011.

20. LONG-TERM RECEIVABLES FROM FINANCE LEASE

	2011	2010
Overdue receivables (Note 22)	639,465	494,523
Up to 1 year (Note 22)	1,697,275	1,475,137
From 1 to 5 years	2,870,921	2,621,587
Over 5 years	35,998	108,902
Total receivables from finance lease (a)	**5,243,659**	**4,700,149**
Overdue receivables	(639,465)	(494,523)
Current portion of long-term receivables	(1,697,275)	(1,475,137)
Gross long-term receivables	**2,906,919**	**2,730,489**
Less: Allowance for impairment of long-term receivables (b)	(38,830)	(51,436)
Balance as of 31 December	**2,868,089**	**2,679,053**

Long-term receivables from finance lease amount to RSD 5,243,659 thousand as of 31 December 2011 (31 December 2010: RSD 4,700,149 thousand).

In accordance with the requirements of IAS/IFRS, overdue receivables and current portion of long-term receivables from finance lease in the gross amount of RSD 2,336,740 thousand (31 December 2010: RSD 1,969,660 thousand) has been presented within Short-term receivables from finance lease (see Note 22).

(a) The present value of minimum lease payments receivable and the gross investment in the lease as of 31 December 2011 are presented in the table below:

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

The present value of minimum lease payments receivable and the gross investment in the lease as of 31 December 2010 are presented in the table below:

	Present value - principal	Unearned finance income	Gross receivables - investment
Up to 1 year and overdue	1,969,660	250,119	2,219,779
From 1 to 5 years	2,621,587	337,157	2,958,744
Over 5 years	108,902	6,603	115,505
Total	**4,700,149**	**593,879**	**5,294,028**

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

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

	2011	2010
Balance as of 1 January	**51,436**	**82,003**
Charge for the year	19,533	12,153
Reversal of impairment losses	(31,861)	(54,721)
Foreign exchange differences, net	(278)	12,001
Balance as of 31 December	**38,830**	**51,436**

(c) Finance lease agreements are signed for the period from 2 to 7 years whereby the Law on Finance Lease prescribes 2 years as the required minimum. Economic benefits and risks are transferred to the lessee pursuant to the finance lease agreements. In accordance with the agreements, ownership is transferred to the lessee at the end of the payment of all the contracted instalments. In 2011, average lease origination fee amounted to 1.04% of the gross cost of leased asset (2010: 1.12%).

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

Nominal interest rates on finance lease agreements approved in 2011 vary in the following ranges:

	From	To
Placements in EUR	4.50%	10.05%
Placements in CHF	3.80%	9.95%
Placements in RSD	11.47%	13.77%

The average rate of the clients' participation in accordance with the lease agreements in 2011 amounted to 15.95% of the net cost of leased asset (2010: 14.36%).

21. INVENTORIES

	2011	2010
Advances paid	1,174	1,728
Finance lease assets repossessed in exchange of uncollectible receivables	140,835	101,154
Balance as of 31 December	**142,009**	**102,882**

As of 31 December 2011, finance lease assets repossessed in exchange of uncollectible receivables amounting to RSD 140,835 thousand are intended to be reactivated through finance lease agreements or for further selling. The repossessed finance lease assets relate to 72 finance lease agreements. The carrying amount of the repossessed finance lease assets mostly relate to construction machines in the amount of RSD 77,976 thousand.

21. INVENTORIES (Continued)

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

22. SHORT-TERM RECEIVABLES FROM FINANCE LEASE

	2011	2010
Current portion of long-receivables from finance lease (Note 20)	1,697,275	1,475,137
Receivables overdue more than 60 days	501,770	384,345
Receivables overdue up to 60 days	137,695	110,178
Gross receivables	**2,336,740**	**1,969,660**
Less: Allowance for impairment		
Current portion of long-receivables from finance lease	(20,219)	(23,962)
Receivables overdue more than 60 days	(419,285)	(358,150)
Receivables overdue up to 60 days	(37,710)	(41,552)
	(477,214)	**(423,664)**
Balance as of 31 December	**1,859,526**	**1,545,996**

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

	2011	2010
Balance as of 1 January	**423,664**	**299,579**
Charge for the year	146,374	153,086
Reversal of impairment losses	(93,671)	(63,226)
Foreign exchange differences, net	847	34,225
Balance as of 31 December	**477,214**	**423,664**

23. OTHER RECEIVABLES FROM FINANCE LEASE

	2011	2010
Finance lease origination fees	13,387	1,552
Receivables for re-billed expenses	4,681	5,590
Receivables for intercalary interest	25,922	13,662
Receivables for penalty interest	4,699	5,481
Receivables from issuing warnings	698	810
Other	1,268	836
Gross receivables	**50,655**	**27,931**
Less: Allowance for impairment	(20,297)	(11,773)
Balance as of 31 December	**30,358**	**16,158**

24. RECEIVABLES FROM OPERATING ACTIVITIES

	2011	2010
Receivables for damage compensation upon the sale of leased assets	108,987	81,537
Receivables from leased assets sold	2,731	3,844
Receivables for rent	907	1,274
Interest receivable on term deposits	468	420
Other receivables	1,953	1,007
Gross receivables	**115,046**	**88,082**
Less: Allowance for impairment	(108,987)	(81,537)
Balance as of 31 December	**6,059**	**6,545**

25. SHORT-TERM FINANCIAL PLACEMENTS

	2011	2010
Short-term deposits in RSD	702,726	769,000
Short-term deposits in EUR	449,956	361,011
Balance as of 31 December	**1,152,682**	**1,130,011**

As of 31 December 2011, short-term financial placements relate to term deposits placed with Banca Intesa a.d. Belgrade for the period of 185 days, at the rates ranging from 2.75% to 4.9% per annum for placements in EUR, i.e. at rates ranging from the key policy rate of the National Bank of Serbia (two-week repo transactions) decreased by 1% to the key policy rate of the National Bank of Serbia (two-week repo transactions) decreased by 0.25% per annum for placements in RSD.

26. CASH AND CASH EQUIVALENTS

	2011	2010
Current accounts in RSD	29,918	12,451
Foreign currency accounts	29	8
Mandatory reserve in foreign currency	348,790	362,929
Balance as of 31 December	**378,737**	**375,388**

During 2011 and 2010, the Company performed payment and settlement transactions in domestic and foreign currency through its accounts held with Banca Intesa a.d. Belgrade.

27. VALUE ADDED TAX AND ACCRUALS

	2011	2010
Accrued interest on term deposits	56,040	51,990
Accrued interest income on financial placements	13,478	13,831
Accrued intercalary interest	400	312
Other accruals	29,637	1,451
Balance as of 31 December	**99,555**	**67,584**

Accrued interest on term deposits as of 31 December 2011 relates to the accrued interest income as of 31 December 2011, calculated in accordance with the Agreement on term deposit in RSD which is effective until 30 March 2012, when interest is also due.

Accrued interest income on financial placements relates to the interest accrued as of 31 December 2011 with respect to all finance lease agreements for which interest is due in 2012.

Other accruals as of 31 December 2011 mostly relate to receivables for the advance payment of income tax amounting to RSD 20,243 thousand.

28. EQUITY

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

	2011	2010
Initial capital – stake capital	960,374	960,374
Retained earnings	301,141	163,880
Balance as of 31 December	**1,261,515**	**1,124,254**

/i/ *Initial Capital – Stake Capital*

The Company's stake capital structure by stakeholders' contribution as of 31 December 2011 and 2010 is presented in the table below:

	2011	2010
Banca Intesa a.d. Belgrade	960,374	947,941
CIB Leasing LTD, Budapest, Hungary	-	12,433
Total	**960,374**	**960,374**

There was a change in the Company's ownership structure during the year ended 31 December 2011. Through the purchase of the stake of the minority stakeholder CIB Leasing LTD, Budapest, Hungary, Banca Intesa a.d. Belgrade became the holder of the stake amounting to RSD 960,374 thousand at the year-end.

Accordingly, as of 31 December 2011 Banca Intesa a.d. Belgrade is the sole owner of the Company with 100% share in the Company's stake (initial) capital.

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

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

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

/ii/ *Retained Earnings*

Retained earnings of the Company as of 31 December 2011 amount to RSD 301,141 thousand (31 December 2010: RSD 163,880 thousand) and comprise profit for the year amounting to RSD 137,261 thousand and profit from prior years amounting to RSD 163,880 thousand.

29. LONG-TERM PROVISIONS

	2011	2010
Provision for retirement benefits	332	146
Balance as of 31 December	**332**	**146**

The provision for employees' retirement benefits have been recorded on the basis of the Report of an independent actuary as of 31 December 2011, and it is stated in the amount of discounted present value of future payments.

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

The provision was determined in line with the Company's Labour Rule book and the assumption of average salary increase rate of 5.5% per annum.

Movements in the provision during the year were as follows:

	2011	2010
Balance as of 1 January	**146**	**5,560**
Provision during the year (Note 14)	186	-
Release of provision (Note 15)	-	(5,414)
Balance as of 31 December	**332**	**146**

30. LONG-TERM BORROWINGS

	2011	2010
Long-term borrowings in the country		
Long-term borrowings in the country – with EUR foreign currency clause	741,459	471,590
Long-term borrowings in the country – with CHF foreign currency clause	106,961	263,893
Total	**848,420**	**735,483**
Long-term borrowings abroad		
Long-term borrowings abroad in EUR	3,243,868	1,371,477
Long-term borrowings abroad in CHF	233,681	270,226
Total	**3,477,549**	**1,641,703**
Balance as of 31 December	**4,325,969**	**2,377,186**

30. LONG-TERM BORROWINGS (Continued)

As of 31 December 2011, long-term borrowings in the county completely relate to the loans granted by Banca Intesa a.d. Belgrade. Long-term borrowings abroad relate to the liabilities towards Intesa Sanpaolo S.p.A., Milan (RSD 2,954,344 thousand) and Council of Europe Development Bank, Paris (RSD 523,205 thousand).

In 2011, Banca Intesa a.d. Belgrade granted four long-term loans to the Company totalling EUR 7 million, with a foreign currency clause million and a maturity period throughout 2016.

In 2011, the Company withdrew the first instalment of the credit line extended by CEB - Council of Europe Development Bank, Paris in the amount of EUR 5 million. The total credit line amounting to EUR 10 million has been approved for the period of 8 years. As collateral provided for the first instalment of the aforementioned long-term loan, the Company received the guarantee from Intesa Sanpaolo S.p.A., Milan, which has been recorded within the Off-balance sheet items (RSD 528,962 thousand).

In 2011, the Company repaid a portion of long-term loans granted by Intesa Sanpaolo S.p.A., Milan, in the amount of CHF 1,615 million.

The creditor Intesa Sanpaolo S.p.A., Milan, has extended two credit lines totalling EUR 18 million for another two years; accordingly, borrowings in the amount of RSD 1,883,536 thousand as of 31 December 2011 are to be paid in December 2013.

Interest rates on long-term borrowings range from 1.67% to 6.48% per annum, depending on the currency and maturity period.

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

	2011	**2010**
Up to 1 year (Note 31)	900,646	2,299,345
From 1 to 2 years	3,311,999	871,377
From 2 to 5 years	752,368	1,505,809
Over 5 years	261,602	-
Balance as of 31 December	**5,226,615**	**4,676,531**

31. SHORT-TERM BORROWINGS

	2011	**2010**
Current portion of long-term borrowings in the country	377,441	304,531
Current portion of long-term borrowings abroad	523,205	1,994,814
Balance as of 31 December	**900,646**	**2,299,345**

The total outstanding balance of borrowings as of 31 December 2011 relate to the liabilities to the members of Intesa Sanpaolo Group.

32. OPERATING LIABILITES

	2011	2010
Liabilities from finance lease activities	-	220
Interest and financing costs payable	5,407	4,059
Balance as of 31 December	**5,407**	**4,279**

33. OTHER LIABILITIES

	2011	2010
Domestic trade payables	11,761	4,191
Other payables to customers	30,236	14,499
Other liabilities	10,665	10,753
Liabilities for unused vacations (Note 14)	1,719	1,656
Balance as of 31 December	**54,381**	**31,099**

Other payables to customers totalling RSD 30,236 thousand as of 31 December 2011 mostly relate to overpaid instalments by customers it the amount of RSD 12,502 thousand and advances received in the amount of RSD 13,314 thousand.

34. VALUE ADDED TAX, OTHER PUBLIC CHARGES AND ACCRUALS

	2011	2010
Accrued interest expenses on long-term borrowings	7,949	14,324
Deferred income – finance lease origination fees	46,691	41,586
Accrued other expenses	44,681	29,198
Withholding tax payable	843	1,585
Value added tax payable	-	593
Balance as of 31 December	**100,164**	**87,286**

35. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating Lease Commitments

The Company has entered into commercial operating leases on certain business premises in accordance with lease agreements.

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

	2011	2010
Up to 1 year	2,598	2,616
From 1 to 5 years	10,392	10,464
	12,990	**13,080**

(b) Litigation

As of 31 December 2011, one court proceeding is initiated against the Company. The total value of the damage claim amounts to RSD 433 thousand (31 December 2010: RSD 9,923 thousand), excluding penalty interests that may arise with respect thereto.

The Company's management does not expect losses arising with respect to this litigation in the future period, and, accordingly, the accompanying financial statements for the year ended 31 December 2011 do not include a provision for potential losses with respect to this matter.

(c) Tax Risks

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

36. RELATED PARTY DISCLOSURES

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

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

36. RELATED PARTY DISCLOSURES (Continued)

(a) Transactions with Banca Intesa a.d. Belgrade

Outstanding balances of receivables and liabilities as of 31 December 2011 and 2010 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

	2011	2010
Term deposits (Note 25)	1,152,682	1,130,011
Cash and cash equivalents (Note 26)	378,737	375,388
Receivables from finance lease	154,078	168,105
Interest on term deposits	468	420
Accrued interest on term deposits (Note 27)	56,040	51,990
Balance as of 31 December	**1,742,005**	**1,725,914**

Liabilities to Banca Intesa a.d. Belgrade

	2011	2010
Long-term borrowings (Note 30)	848,420	735,483
Short-term borrowings (Note 31)	377,441	304,531
Interest payable (Note 32)	5,407	4,059
Other liabilities	5,695	2,328
Balance as of 31 December	**1,236,963**	**1,046,401**

Income from Transactions with Banca Intesa a.d. Belgrade

	2011	2010
Financial income – interest	87,439	73,672
Interest income from finance lease	12,098	5,347
Other income	405	131
Total	**99,942**	**79,150**

Expenses from Transactions with Banca Intesa a.d. Belgrade

	2011	2010
Financial expenses - interest	44,269	53,289
Rental costs	4,734	4,301
Expenses arising from the agreement on providing services	5,983	2,507
Other expenses	4,248	1,648
Total	**59,234**	**61,745**

36. RELATED PARTY DISCLOSURES (Continued)

(b) Transactions with Other Related Parties

As of 31 December 2011 and 2010, the Company had the following liabilities to the members of Intesa Sanpaolo Group - Intesa Sanpaolo S.p.A. Succursale de Paris, Paris and Intesa Sanpaolo S.p.A., Milan, as well as expenses incurred during the year:

Liabilities to the Members of Intesa Sanpaolo Group

	2011	2010
Long-term borrowings – Intesa Sanpaolo S.p.A. (Note 30)	2,954,344	1,114,212
Long-term borrowings – Intesa Sanpaolo S.p.A. Succursale de Paris	-	527,491
Short-term borrowings – Intesa Sanpaolo S.p.A.	-	1,994,814
Short-term borrowings – Intesa Sanpaolo S.p.A. Succursale de Paris (Note 31)	523,205	-
Balance as of 31 December	**3,477,549**	**3,636,517**

Expenses from Transactions with the Members of Intesa Sanpaolo Group

	2011		2010	
	Intesa Sanpaolo S.p.A.	Intesa Sanpaolo S.p.A. Succursale de Paris	Intesa Sanpaolo S.p.A.	Intesa Sanpaolo S.p.A. Succursale de Paris
Financial expenses - interest	84,007	13,036	76,902	12,316
Other operating expenses – withholding tax	9,536	1,300	8,619	1,368
Total expenses	**93,543**	**14,336**	**85,521**	**13,684**

(c) Salaries of the Key Management Personnel

During the years ended 31 December 2011 and 2010, salaries in the following amounts were paid to the Company's management:

	2011	2010
Total gross salaries	25,192	22,824
Total net salaries	19,945	18,084

No remunerations were paid to the members of the Supervisory Board in 2011 and 2010.

37. RISK MANAGEMENT

Risk is an inherent part of financial institutions' activities and cannot be eliminated completely. However, the Company should manage the risks in order to reduce them to the 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.

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

Management is responsible for implementation of 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.

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 Supervisory Board.

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

In order to implement a special and unique system for risk management as well as to enable a functional and organizational segregation of risk management activities from regular business activities, the Risk Management Department and Corporate Department of Banca Intesa a.d. Belgrade are involved.

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

The process of risk management in the Company is formalized through the Risk Management Directives, adopted on 21 December 2011, which represent a unified framework for the assessment and evaluation of risks resulting from the finance lease services provided by the Company, while the measures for identification, measurement and minimizing of certain types of risks are defined by individual procedures.

37. RISK MANAGEMENT (Continued)

At present, the Company is in the process of harmonizing its policies and procedures with the new legislation relating to risk management. The legally defined deadline for the above mentioned harmonization is 17 May 2012. In order to do so, the Company will define the system of internal controls in a manner that enables continued identification, measurement and assessment of risks which may have an adverse impact on its operations.

The foregoing particularly relates to the credit risk, operational risk, liquidity risk, compliance risk, market risk and the risk of exposure (concentration). The Company will prescribe by its by-laws the procedures for risk identification, measurement and assessment, as well as risk management, in accordance with the regulations, standards and profession rules.

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 necessary market and economic analysis in order to optimize the relation between income and the provision for estimated risks.

37.1. Credit Risk

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

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

Credit risk management is carried out at the following levels:

- Individual level;
- Group of related parties level; and
- Entire portfolio level.

According to the Agreement on business cooperation with Banca Intesa a.d. Belgrade, assessment of the credit worthiness of each client, after submission of the placement approval request, is performed as follows:

- The Company obtains all the necessary documentation from clients for the credit worthiness analysis.
- The collected documentation is sent to the Department for Credit Analysis of Banca Intesa a.d. 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 Company's Director makes the decision on placement approval based on the abovementioned proposal of the Department for Credit Analysis.

37. RISK MANAGEMENT (Continued)

37.1. Credit Risk (Continued)

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

Furthermore, the Company manages the credit risk through assessment and analysis of received collaterals, by providing allowance for impairment of receivables for finance lease, 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 analysed before the execution of transaction.

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

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

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

Standard collaterals provided by customers are contractual authorisation and bills of exchange.

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

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

In accordance with the Agreement on business cooperation, the Risk Management Department of Banca Intesa a.d. 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 deficiences, breach of contractual terms as well as deterioration in the client's credit rating.

Impairment of the Company's receivables for finance lease is preformed as collective assessment. Impairment is assessed monthly, along with the analysis of each finance lease portfolio.

In 2011, the professional body for managing non-performing placements was giving recommendations for finding the best possible solutions for dealing with bad and non-performing receivables.

37. RISK MANAGEMENT (Continued)

37.1. Credit Risk (Continued)

(a) Portfolio Quality

The Company manages the quality of its financial assets by using an internal model for finance lease receivables grading. The following table presents the quality of the **gross portfolio, i.e. receivables from finance lease** as of 31 December 2011, by types of placements and based on the Company's internal grading system:

	High quality	Standard quality	Sub-standard quality	Uncollec-table and doubtful	Total 2011
Placements to the related party - Banca Intesa a.d. Belgrade	**154,078**	**-**	**-**	**-**	**154,078**
Placements to customers					
Corporate customers	374,790	1,280,912	1,282	240,264	1,897,248
SMEs	1,694,266	603,078	102,144	484,342	2,883,830
Retail customers	125,793	18,550	12,650	11,060	168,053
Farmers	48,294	1,492	-	90,664	140,450
	2,243,143	**1,904,032**	**116,076**	**826,330**	**5,089,581**
Total	**2,397,221**	**1,904,032**	**116,076**	**826,330**	**5,243,659**
Participation in the total gross placements	**45.72%**	**36.31%**	**2.21%**	**15.76%**	**100.00%**

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

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

37. RISK MANAGEMENT (Continued)

37.1. Credit Risk (Continued)

(a) Portfolio Quality (Continued)

The following table presents the quality of the **gross portfolio, i.e. receivables from finance lease** as of 31 December 2010, by types of placements and based on the Company's internal grading system:

	High quality	Standard quality	Sub-standard quality	Uncollec-table and doubtful	Total 2010
Placements to the related party - Banca Intesa a.d. Belgrade	**168,105**	**-**	**-**	**-**	**168,105**
Placements to customers					
Corporate customers	260,587	1,208,155	77,069	65,361	1,611,172
SMEs	1,087,814	855,079	274,949	312,828	2,530,670
Retail customers	187,294	36,764	7,579	10,136	241,773
Farmers	52,582	2,949	1,559	91,339	148,429
	1,588,277	**2,102,947**	**361,156**	**479,664**	**4,532,044**
Total	**1,756,382**	**2,102,947**	**361,156**	**479,664**	**4,700,149**
Participation in the total gross placements	**37.37%**	**44.74%**	**7.68%**	**10.21%**	**100,00%**

The structure of the total **allowance for impairment of receivables from finance lease** by types of placements as of 31 December 2010 is presented in the table below:

	High quality	Standard quality	Sub-standard quality	Uncollec-table and doubtful	Total 2010
Placements to the related party - Banca Intesa a.d. Belgrade	**-**	**-**	**-**	**-**	**-**
Placements to customers					
Corporate customers	614	27,390	12,179	35,275	75,458
SMEs	2,499	22,725	26,118	248,505	299,847
Retail customers	374	707	909	7,279	9,269
Farmers	158	62	327	89,979	90,526
Total	**3,645**	**50,884**	**39,533**	**381,038**	**475,100**
Participation in the total allowance for impairment	**0.77%**	**10.71%**	**8.32%**	**80.20%**	**100.00%**

37. RISK MANAGEMENT (Continued)

37.1. Credit Risk (Continued)

(a) Portfolio Quality (Continued)

The following table presents the quality of the **net portfolio, i.e. receivables from finance lease** as of 31 December 2011 and 2010, by types of placements and based on the Company's internal grading system:

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

	High quality	Standard quality	Sub-standard quality	Uncollec-table and doubtful	Total 2010
Placements to the related party - Banca Intesa a.d. Belgrade	**168,105**	**-**	**-**	**-**	**168,105**
Placements to customers					
Corporate customers	259,973	1,180,765	64,890	30,086	1,535,714
SMEs	1,085,315	832,353	248,831	64,324	2,230,823
Retail customers	186,920	36,057	6,670	2,857	232,504
Farmers	52,424	2,887	1,232	1,360	57,903
	1,584,633	**2,052,062**	**321,623**	**98,626**	**4,056,944**
Total	**1,752,738**	**2,052,062**	**321,623**	**98,626**	**4,225,049**
Participation in the total net placements	**41.48%**	**48.57%**	**7.61%**	**2.34%**	**100.00%**

37. RISK MANAGEMENT (Continued)

37.1. Credit Risk (Continued)

(a) Portfolio Quality (Continued)

Ageing Structure of Overdue Receivables of High and Standard Quality

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

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

The ageing analysis of overdue placements to customers of high and standard quality as of 31 December 2010 is presented in the table below:

	Up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total 2010
Placements to customers					
Corporate customers	13,770	7,867	1,217	88	22,942
SMEs	31,221	13,905	2,605	446	48,177
Retail customers	2,214	510	198	2	2,924
Farmers	2,424	671	-	-	3,095
Total	**49,629**	**22,953**	**4,020**	**536**	**77,138**
Participation in total overdue placements of high and standard quality	**64.34%**	**29.76%**	**5.21%**	**0.69%**	**100.00%**

37. RISK MANAGEMENT (Continued)

37.1. Credit Risk (Continued)

(b) Maximum Exposure to Credit Risk

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

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

The structure of the Company's maximum credit risk exposure stated at its carrying value as of 31 December 2010, grouped by geographical sectors, is presented in the table below:

Geographical region	Placements to banks	Placements to other customers	Allowance for impairment	Total 2010
Belgrade	168,105	2,399,254	(238,447)	2,328,912
Vojvodina	-	901,234	(86,101)	815,133
Rest of Serbia	-	1,231,556	(150,552)	1,081,004
Total	**168,105**	**4,532,044**	**(475,100)**	**4,225,049**

37. RISK MANAGEMENT (Continued)

37.1. Credit Risk (Continued)

(b) Maximum Exposure to Credit Risk (Continued)

The analysis of the Company's credit risk exposure stated at its carrying value as of 31 December 2011 and 2010, grouped by industrial sectors, is presented in the table below:

	Industry structure	Gross maximum exposure 2011	Net maximum exposure 2011	Gross maximum exposure 2010	Net maximum exposure 2010
1	Agriculture, forestry and fishing (sector A)	125,060	97,342	126,413	107,088
2	Processing industry; Water supply, waste water management, removing waste control process and related activities (sectors B, C and E)	1,112,548	1,013,661	1,253,303	1,160,932
3	Power supply, gas, steam supply and air conditioning (sector D)	309	295	5,540	569
4	Construction (sector F)	704,460	650,133	362,122	314,288
5	Wholesale and retail, vehicles and motorcycles repair (sector G)	490,508	408,794	548,862	458,824
6	Traffic and warehousing; Communications (sectors H and J)	1,535,168	1,442,174	1,084,081	1,009,073
7	Accommodation and board (sector I)	31,413	29,643	36,109	35,061
8	Financial activities and insurance (sector K)	184,905	183,743	176,063	176,026
9	Health care and social work (sector Q)	70,370	70,091	60,217	60,035
10	Other industries (sectors L, M, N, O, P, R, S, T and U)	988,918	831,739	1,047,439	903,153
	Total	**5,243,659**	**4,727,615**	**4,700,149**	**4,225,049**

Exposure Risk

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

Exposure risk is measured in relation to the Company's equity. As of 31 December 2011, 13 clients with the largest net receivables individually have exposure risk exceeding 5% of the Company's equity.

Net receivables from 20 largest clients as of 31 December 2011 amounted to RSD 2,558,165 thousand (31 December 2010: RSD 1,982,356 thousand) and their exposure to the equity was 202.78% (2010: 176.33%).

All other clients with the total net placements amounting to RSD 2,169,450 thousand (31 December 2010: RSD 2,242,694 thousand) had exposure to the equity of 171.97% (2010: 199.48%).

37. RISK MANAGEMENT (Continued)

37.1. Credit Risk (Continued)

(c) Assessment of Impairment of Financial Assets

Structure of the allowance for impairment of financial assets, i.e. receivables from finance lease, as of 31 December 2011 and 2010 is presented below:

	Gross receivables from finance lease	Allowance for impairment	Net receivables from finance lease
31 December 2011			
Retail customers	168,053	(10,480)	157,573
Corporate customers	4,935,156	(414,760)	4,520,396
Farmers	140,450	(90,804)	49,646
Total	**5,243,659**	**(516,044)**	**4,727,615**
31 December 2010			
Retail customers	241,773	(9,269)	232,504
Corporate customers	4,309,947	(375,305)	3,934,642
Farmers	148,429	(90,526)	57,903
Total	**4,700,149**	**(475,100)**	**4,225,049**

37. RISK MANAGEMENT (Continued)

37.2. Liquidity Risk

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

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

Objectives of liquidity management comprise:

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

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

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

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

Furthermore, the Company has contracted credit lines as an instrument for liquidity management as of 31 December 2011, i.e. overdraft in the amount of RSD 30,000 thousand.

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

The Maturity mismatch report as of 31 December 2011 indicates the high level of liquidity, especially in the period of next 18 months.

37. RISK MANAGEMENT (Continued)

37.2. Liquidity Risk (Continued)

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months to 5 years	Over 5 years	Undefined maturity	Total
ASSETS									
Intangible assets	-	-	-	-	-	-	-	14,388	14,388
Property, plant and equipment	-	-	-	-	-	-	-	11,195	11,195
Receivables from finance lease	397,576	297,906	399,760	764,284	671,346	2,160,745	35,998	-	4,727,615
Trade receivables	-	-	-	-	-	-	-	30,358	30,358
Receivables from operating activities	3,919	-	1,672	-	-	-	-	-	5,591
Term deposits	345,315	702,726	-	104,641	-	-	-	-	1,152,682
Cash and cash equivalents	29,947	-	-	-	-	-	-	348,790	378,737
Interest receivables	15,071	55,315	-	-	-	-	-	-	70,386
Other assets and receivables	-	-	-	-	-	-	-	281,871	281,871
Deferred tax assets	-	-	-	495	-	-	-	-	495
TOTAL ASSETS	**791,828**	**1,055,947**	**401,432**	**869,420**	**671,346**	**2,160,745**	**35,998**	**686,202**	**6,673,318**
LIABILITIES AND EQUITY									
Provisions	-	-	-	-	-	-	-	332	332
Borrowings in the country	22,231	45,236	87,765	222,209	206,281	642,139	-	-	1,225,861
Borrowings from abroad	-	523,205	-	-	-	3,215,946	261,603	-	4,000,754
Interest payable	9,053	4,303	-	-	-	-	-	-	13,356
Trade payables	-	-	-	-	-	-	-	11,761	11,761
Other liabilities	-	-	-	-	-	-	-	134,931	134,931
Income tax payable	-	24,808	-	-	-	-	-	-	24,808
Total liabilities	**31,284**	**597,552**	**87,765**	**222,209**	**206,281**	**3,858,085**	**261,603**	**147,024**	**5,511,803**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,261,515**	**1,261,515**
TOTAL LIABILITIES AND EQUITY	**31,284**	**597,552**	**87,765**	**222,209**	**206,281**	**3,858,085**	**261,603**	**1,408,539**	**6,673,318**
Maturity mismatch/net liquidity gap as of:									
- 31 December 2011	**760,544**	**458,395**	**313,667**	**647,211**	**465,065**	**(1,697,340)**	**(225,605)**	**(721,937)**	**-**
- 31 December 2010	**263,866**	**1,240,210**	**425,826**	**(1,483,288)**	**(90,848)**	**250,461**	**108,825**	**(715,052)**	**-**

37. RISK MANAGEMENT (Continued)

37.3. Market Risk

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

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

The Company is exposed to the following market risks:

- 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 record a decrease in value due to market and technological reasons.

37.3.1. Interest Rate Risk

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

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

The following table shows the Reprising gap report, i.e. the Company's exposure to the interest rate risk as of 31 December 2011. The table includes the Company's assets and liabilities at their carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

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

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2011

All amounts are expressed in RSD thousand, unless otherwise stated

37. RISK MANAGEMENT (Continued)

37.3. Market Risk (Continued)

37.3.1. Interest Rate Risk (Continued)

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months to 5 years	Over 5 years	Interest non-sensible	Total
ASSETS									
Intangible assets	-	-	-	-	-	-	-	14,388	14,388
Property, plant and equipment	-	-	-	-	-	-	-	11,195	11,195
Receivables from finance lease	480,714	4,207,861	5,680	10,167	11,865	11,328	-	-	4,727,615
Trade receivables	-	-	-	-	-	-	-	30,358	30,358
Receivables from operating activities								5,591	5,591
Term deposits	449,956	702,726	-	-	-	-	-	-	1,152,682
Cash and cash equivalents	-	-	-	-	-	-	-	378,737	378,737
Interest receivables	-	-	-	-	-	-	-	70,386	70,386
Other assets and receivables	-	-	-	-	-	-	-	281,871	281,871
Deferred tax assets	-	-	-	-	-	-	-	495	495
TOTAL ASSETS	**930,670**	**4,910,587**	**5,680**	**10,167**	**11,865**	**11,328**	**-**	**793,021**	**6,673,318**
LIABILITIES AND EQUITY									
Provisions	-	-	-	-	-	-	-	332	332
Borrowings	395,013	4,831,602	-	-	-	-	-	-	5,226,615
Interest payable	-	-	-	-	-	-	-	13,356	13,356
Trade payables	-	-	-	-	-	-	-	11,761	11,761
Other liabilities	-	-	-	-	-	-	-	134,931	134,931
Income tax payable	-	-	-	-	-	-	-	24,808	24,808
Total liabilities	**395,013**	**4,831,602**	**-**	**-**	**-**	**-**	**-**	**185,188**	**5,411,803**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,261,515**	**1,261,515**
TOTAL LIABILITIES AND EQUITY	**395,013**	**4,831,602**	**-**	**-**	**-**	**-**	**-**	**1,446,703**	**6,673,318**
Periodical GAP as of 31 December 2011	**535,657**	**78,985**	**5,680**	**10,167**	**11,865**	**11,328**	**-**	**(653,682)**	**-**
Cumulative GAP	**535,657**	**614,642**	**620,322**	**630,489**	**642,354**	**653,682**	**-**	**-**	**-**

37. RISK MANAGEMENT (Continued)

37.3. Market Risk (Continued)

37.3.1. Interest Rate Risk (Continued)

The total cumulative gap of up to 1 year amounts to RSD 630,489 thousand, most of which relate to assets gained from recapitalisation and invested into term deposits and financial placements and, therefore, the gap 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.

37.3.2. Foreign Currency Risk

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

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

In order to manage foreign currency risk, the Company negotiates finance lease contracts in EUR and CHF, with annuities paid in the dinar equivalent at the selling exchange rate for cash of Banca Intesa a.d. Belgrade, in case of retail customers, or at the official selling exchange rate of the same bank, in case of corporate customers.

Offering finance lease in different currencies leads to the exposure to exchange rates fluctuations for different currencies. In accordance with the Company's internal policy, as well as potential fluctuations in exchange rates, the open foreign currency position limit has been set up to EUR 300,000 for the position in EUR, and to CHF 100,000 for the position in CHF.

The Company measures the foreign currency risk on a daily basis, according to the methodology of the National Bank of Serbia, through the Report on the foreign currency risk indicator. During 2011, the Company strictly paid attention to the compliance of the foreign currency risk indicator with the prescribed limit. During 2011, this indicator was within the defined limit.

The total open forex position as of 31 December 2011 amounted to RSD 18,391 thousand, while the foreign currency risk indicator amounted to 1.64% of the equity.

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

Scenario	Effect on 2011 Income Statement	Effect on 2010 Income Statement
10% depreciation of RSD	(10,476)	(27,523)
20% depreciation of RSD	(20,953)	(55,046)

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

37. RISK MANAGEMENT (Continued)

37.4. Operational Risk

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

The function of operational risk management process is to identify, assess, control and minimise 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 analysing the operational risks, the failures in its processes, products and procedures. Through improving its processes, products and procedures, the Company is able to decrease frequency as well as the negative influence of operational losses on its business and profitability.

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

Operational risks comprise:

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

During 2011 and 2010, operational risks were traced through the "Serenity" application. Tracing and recording of identified events that cause the Company's operational risks is performed by operational risk monitoring coordinators.

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

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

In 2011, there was only one operational risk event in the line Execution, delivery and process management, related to monitoring and reporting, which had no effect on the Company's result.

37. RISK MANAGEMENT (Continued)

37.5. Fair Value of Financial Assets and Liabilities

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

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

In the Republic of Serbia, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are presently not readily available. As a result of this, fair value cannot readily or reliably be determined in the absence of an active market. The Company's management assesses its overall risk exposure, and in instances in which it estimates that the value of assets stated in its books may not have been realized, it recognizes a 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 does not have financial assets or financial liabilities carried at fair value in the balance sheet. The fair values of short-term receivables from finance lease, other receivables from finance lease operations, short-term financial assets, cash and cash equivalents, short-term financial liabilities and other short-term liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

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

In addition, during 2011 and 2010, the value of inventories - leased assets returned to the Company, has been recorded at assessed market value based on a certified appraiser's assessment. In accordance with the principle of caution, losses identified by such assessments are recorded through profit and loss, while gains are recorded in the balance sheet as a liability.

38. CAPITAL MANAGEMENT

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

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

In accordance with the Law on Finance Lease, for the performance of finance lease transactions the object of which is a movable good, the pecuniary portion of the initial capital of the Company can not be lower than the dinar equivalent of EUR 500,000 at the official middle exchange rate of the National Bank of Serbia as at the payment date. For the performance of finance lease transactions the object of which is an immovable good, the pecuniary portion of the initial capital of the lessor can not be lower than the dinar equivalent of EUR 5,000,000 at the official middle exchange rate as at the payment date.

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

As of 31 December 2011, the Company's stake capital amounts to RSD 960,374 thousand and is significantly above the prescribed minimum. The calculation of capital adequacy made for the purposes of reporting to the Intesa Sanpaolo Group also shows that the equity is significantly above the expected minimum.

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

39. LEASED ASSETS INSURANCE

Considering the risk which the Company is exposed to, the Company pays special attention to insurance of leased assets. Therefore, the Company cooperates with insurance companies, particularly with Delta Generali osiguranje a.d.o. Belgrade.

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

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

40. TAX ADMINISTATION CONTROL

In November 2011, the Tax Administration - Stari grad Affiliate, made an inspection of legalization of the software owned by the Company.

On 13 January 2012, the Tax Administration issued the Minutes on inspection, in which it concluded that the Company had legal software in use.

41. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

In accordance with Article 20 of the Law on Accounting and Auditing, the Company performed the reconciliation procedure of receivables and payables with its debtors and creditors with the balance as of 31 December 2011, and it maintains credible documentation on the circularization process.

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

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

42. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events subsequent to the reporting date, which would require adjustments and/or disclosures in the notes to the accompanying financial statements of the Company as of and for the year ended 31 December 2011.

BDO d.o.o. Beograd
Knez Mihailova 10
11000 Belgrade
Republic of Serbia
Tel: +381 11 3281 399
Fax: +381 11 32 81 808

www.bdo.co.rs