KPMG d.o.o. Beograd
Milutina Milankovića 1J
11070 Belgrade
Serbia

Tel.: +381 (0)11 20 50 500
Fax: +381 (0)11 20 50 550
www.kpmg.com/rs

TRANSLATION

Independent Auditor's Report

To the Owners of Intesa Leasing d.o.o. Beograd

Opinion

We have audited the accompanying financial statements of Intesa Leasing d.o.o. Beograd (the "Company"), which comprise:

- the balance sheet as at 31 December 2020;

and, for the period from 1 January to 31 December 2020:

- the income statement;
- the statement of other comprehensive income;
- the statement of changes in equity;
- the cash flow statement;

and

- notes, comprising a summary of significant accounting policies and other explanatory information

(the "financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with the accounting regulations effective in the Republic of Serbia and other relevant laws and by-laws which regulate financial reporting of financial leasing companies in the Republic of Serbia.

Registration No.: 17148656
Tax Identity No.: 100058593
Bank Acc.: 265-1100310000190-61

KPMG

Basis for Opinion

We conducted our audit in accordance with the Law on Auditing and the Law on Accounting of the Republic of Serbia and applicable auditing standards in the Republic of Serbia. Our responsibilities under those regulations are further described in the Auditor's Responsibility for the audit of the financial statements section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Serbia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the Annual Business Report for the year ended 31 December 2020.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Based solely on the work required to be undertaken in the course of the audit of the financial statements, in our opinion, the information given in the Annual Business Report for the financial year for which the financial statements are prepared, in all material respects:

— is consistent with the financial statements; and

— has been prepared in accordance with the applicable legal requirements.

In addition, in the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we are required to report if we identify material misstatements in the Annual Business Report and to give an indication of the nature of any of such misstatements. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the accounting regulations effective in the Republic of Serbia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law on Auditing of the Republic of Serbia and applicable auditing standards in the Republic of Serbia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Law on Auditing of the Republic of Serbia and applicable auditing standards in the Republic of Serbia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
— Obtain an understanding of internal control relevant to the audit 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 Company's internal control;
— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG d.o.o. Beograd

Signed on the Serbian original

Nikola Đenić
Licenced Certified Auditor

Belgrade, 5 March 2021

This is a translation of the original Independent Auditor's Report issued in the Serbian language.
All due care has been taken to produce a translation that is as faithful as possible to the original.
However, if any questions arise related to interpretation of the information
contained in the translation, the Serbian version of the document shall prevail.
We assume no responsibility for the correctness of the translation of the Company's financial statements.

KPMG d.o.o. Beograd

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

Nikola Đenić
Licenced Certified Auditor

Belgrade, 5 March 2021

BALANCE SHEET FOR THE YEAR ENDED AS AT 31 DECEMBER

In thousands of RSD	Notes	2020 Closing balance	2019 Closing balance
ASSETS			
Cash	15	157,267	176,388
Financial placements held with banks	16	3,186,423	-
Other financial placements and derivatives	17	961,587	760,088
Receivables from finance lease activities	18	17,373,979	14,885,212
Repossessed leased assets and inventories	19	30,175	28,793
Intangible assets	20	21,790	21,585
Property, plant and equipment	21	11,849	19,096
Deferred tax assets	14	3,786	3,709
Other assets	22	77,573	59,414
TOTAL ASSETS		**21,824,429**	**15,954,285**
EQUITY AND LIABILITIES			
LIABILITIES			
Borrowings from banks and other financial institutions	23	20,318,073	14,553,406
Other financial liabilities and derivatives		9,975	16,382
Provisions	24	12,521	18,786
Current tax liabilities		748	4,052
Other liabilities	25	98,579	73,988
TOTAL LIABILITIES		**20,439,896**	**14,666,614**
EQUITY			
Stake capital	26	960,374	960,374
Reserves, revaluation reserves and unrealized gains	27	317,480	132,618
Retained earnings	28	106,679	194,679
TOTAL EQUITY		**1,384,533**	**1,287,671**
TOTAL LIABILITIES AND EQUITY		**21,824,429**	**15,954,285**

Belgrade, 22 February 2021

Legal representative

INCOME STATEMENT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER

In thousands of RSD	Notes	2020	2019
INCOME AND EXPENSES FROM OPERATING ACTIVITIES			
Interest income	5	460,824	460,080
Interest expenses	5	(179,341)	(176,497)
Net interest income		**281,483**	**283,583**
Fee and commission income	6	120,035	145,357
Fee and commission expenses	6	(52,534)	(55,491)
Net fee and commission income		**67,501**	**89,866**
Net gain on other financial instruments at fair value through profit or loss		885	-
Net foreign exchange losses and net losses from foreign exchange clause	7	(781)	(542)
Other operating income	8	45,146	33,502
Net impairment gains / (losses) on finance lease receivables and financial assets	9	(48,387)	44,239
Net losses from changes in value of repossessed leased assets	10	(11,197)	(11,440)
OPERATING PROFIT		**334,650**	**439,208**
Costs of salaries, benefits and other personal expenses	11	(118,216)	(114,012)
Depreciation and amortization	12	(15,633)	(14,804)
Other expenses	13	(63,947)	(75,041)
PROFIT BEFORE TAX		**136,854**	**235,351**
Current tax expense	14	(30,252)	(40,072)
Deferred tax income	14	77	-
Deferred tax expense		-	(600)
PROFIT FOR THE PERIOD		**106,679**	**194,679**

Belgrade, 22 February 2021

Legal representative

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

In thousands of RSD	Notes	2020	2019
PROFIT FOR THE PERIOD		**106,679**	**194,679**
OTHER COMPREHENSIVE INCOME			
Components of other comprehensive income that may be reclassified to profit or loss			
Positive / (negative) effects of change in fair value of securities available for sale		(9,817)	26,758
TOTAL POSITIVE / (NEGATIVE) OTHER COMPREHENSIVE INCOME FOR THE PERIOD		**(9,817)**	**26,758**
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD		**96,862**	**221,437**

Belgrade, 22 February 2021

Legal representative

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

In thousands of RSD	Stake Capital	Reserves	Revaluation reserves (credit balance)	Profit	Total
Balance as at 1 January 2019	**960,374**	**-**	**2,492**	**103,368**	**1,066,234**
Adjusted opening balance as at 1 January 2019	**960,374**	**-**	**2,492**	**103,368**	**1,066,234**
Other comprehensive income for the period	-	-	26,758	-	26,758
Profit for the period	-	-	-	194,679	194,679
Transfer from profit to reserves	-	103,368	-	(103,368)	-
Balance as at 31 December 2019	**960,374**	**103,368**	**29,250**	**194,679**	**1,287,671**
Balance as at 1 January 2020	**960,374**	**103,368**	**29,250**	**194,679**	**1,287,671**
Adjusted opening balance as at 1 January 2020	**960,374**	**103,368**	**29,250**	**194,679**	**1,287,671**
Other comprehensive loss for the period	-	-	(9,817)	-	(9,817)
Profit for the period	-	-	-	106,679	106,679
Transfer from profit to reserves		194,679	-	(194,679)	-
Balance as at 31 December 2020	**960,374**	**298,047**	**19,433**	**106,679**	**1,384,533**

Belgrade, 22 February 2021

Legal representative

CASH FLOW STATEMENT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER

In thousands of RSD	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	**9,619,175**	**9,824,561**
Receipts from finance lease placements	7,116,637	7,969,852
Receipts and advances received from finance lease activities	2,412,676	1,816,399
Receipts from rent and sales and other advances received	-	-
Other receipts from operating activities	89,862	38,310
Cash outflow from operating activities	**(11,860,049)**	**(9,953,293)**
Payment of liabilities and advance payments related to finance lease activities	(11,514,222)	(9,607,345)
Other payments and advances paid	(123,897)	(106,423)
Salaries, fringe benefits and other personal expenses paid	(120,415)	(114,549)
Income tax paid	(33,555)	(54,121)
Payments for other public charges	(67,216)	(69,759)
Other payments from operating activities	(744)	(1,096)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**(2,240,874)**	**(128,732)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	**29,266**	**679,393**
Other inflows from investing activities	-	672,435
Interest received from investing activities	29,266	6,958
Cash outflow from investing activities	**(1,056,805)**	**(124,303)**
Purchase of intangible assets, property, plant, equipment and other assets	(11,955)	(15,499)
Purchase of financial instruments	-	(108,804)
Other financial placements	(1,044,850)	-
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(1,027,539)**	**555,090**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflow from financing activities	**9,610,388**	**5,314,001**
Increase in borrowings	9,610,388	5,314,001
Cash outflow from financing activities	**(4,009,265)**	**(5,821,077)**
Decrease in borrowings	(3,833,296)	(5,566,339)
Dividends paid	-	(86,000)
Other payments from financial activities	(175,969)	(168,738)
NET CASH FLOWS FROM FINANCING ACTIVITIES	**5,601,123**	**(507,076)**
TOTAL CASH INFLOW	**19,258,829**	**15,817,955**
TOTAL CASH OUTFLOW	**(16,926,119)**	**(15,898,673)**
NET CASH INFLOW	**2,332,710**	**-**
NET CASH OUTFLOW	**-**	**(80,718)**
Cash and cash equivalents at the beginning of period	**176,388**	**258,284**
Exchange rate gains on cash translation	130	45
Exchange rate losses on cash translation	(357)	(1,223)
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**2,508,871**	**176,388**

Belgrade, 22 February 2021

Legal representative

INTESA LEASING D.O.O. BEOGRAD

NOTES TO THE FINANCIAL STATEMENTS FOR 2020

CONTENTS:

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

1 BACKGROUND INFORMATION ON THE COMPANY INTESA LEASING D.O.O. BEOGRAD

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

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

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

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

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

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

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

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

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

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

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

The Company operates as a subsidiary of Banca Intesa a.d. Beograd. The ultimate owner, Intesa Sanpaolo S.P.A., regularly prepares and publishes consolidated financial statements in accordance with International Financial Reporting Standards approved by the EU, and presents them on the official website of the Intesa Sanpaolo: www.group.intesasanpaolo.com.

In accordance with the criteria set forth in the Accounting Law ("RS Official Gazette", no. 73/2019), the Company is classified as a large-sized legal entity.

Company headquarters are located in Belgrade, no. 7b Milentija Popovića Street.

1 BACKGROUND INFORMATION ON THE COMPANY INTESA LEASING D.O.O. BEOGRAD (continued)

The Company's tax identification number is 103023875. The Company's corporate ID number is 17492713.

As at 31 December 2020 the Company had 43 employees (31 December 2019: 43 employees).

2 BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Preparation and Presentation of the Financial Statements

The Company keeps books and prepares financial statements in accordance with the Law on Accounting ("RS Official Gazette", no. 73/2019), Law on Financial Leasing ("RS Official Gazette", no. 55/2003, 61/2005, 31/2011 and 99/2011) and other applicable legal regulations in the Republic of Serbia.

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

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

The Ministry of Finance of the Republic of Serbia decision number 401-00-4980/2019-16 dated November 21, 2019, establishes the translation of International Financial Reporting Standers (IFRS), which comprise the Conceptual Framework for Financial Reporting ("Framework"), basic texts of the International Accounting Standards (IAS), basic IFRS texts as published by the International Accounting Standards Board (IASB), including interpretations issued by the International Financial Reporting Interpretations Committee in the form in which they are published and adopted, and which do not include basis for conclusions, illustrative examples, guidelines, comments, opposing opinions, developed examples and other additional explanatory materials which can be adopted in respect of the standards or interpretations, unless it is explicitly stated that they are integral to the standard or interpretation. The translated IFRS as established by decision number 401-00-4980/2019-16, shall apply to financial statements prepared for the period ended 31 December 2020, while early application is permitted in the preparation of financial statements for the year ended 31 December 2019 (with disclosure of appropriate information in the Notes to the Financial Statements).

The Company has applied IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers as of January 1, 2018 and IFRS 16 Leases as of January 1, 2019, in accordance with the Opinion of the Ministry of Finance, no. 011-00-1051/2016-16 of 23 November 2016. The Company has chosen to apply these standards voluntarily from the date on which they come into force, on January 1, 2018, and January 1, 2019 respectively, although it has not been translated into Serbian or published in the Republic of Serbia. Consequently, publication of translations of IFRS 9, IFRS 15 and IFRS 16 did not have any effect on the Company's accounting policies in 2020 compared to 2019.

2 BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.1 Basis of Preparation and Presentation of the Financial Statements (continued)

The accompanying financial statements represent the Company's separate financial statements. The Company does not have any investments in subsidiaries and related parties.

The accompanying financial statements are prepared in the form prescribed by the Rules on the Content and Layout of Financial Statement Forms for Financial Lessors ("RS Official Gazette" no. 93/2020).

With respect to the above mentioned and the fact that certain laws and subordinated legislation define accounting treatments which in some cases differ from IFRS requirements, accounting regulations of the Republic of Serbia can differ from IFRS requirements which can influence the accompanying financial statements. Therefore, the accompanying financial statements cannot be considered to be financial statements prepared in compliance with IFRS in accordance with the definition provided by IAS 1 *Presentation of Financial Statements*.

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

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

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

Amounts in the accompanying financial statements of the Company are stated in thousands of RSD, unless otherwise indicated. The dinar (RSD) is the Company's functional and presentation currency. All transactions in currencies that are not functional currency are considered to be transactions in foreign currency.

The accompanying financial statements of the Company for 2020 are approved for publishing by the Chairman of the Executive Board on 24 February 2021.

2.2 Comparative figures

Comparative data comprise the annual financial statements of the Company for 2019, compiled in accordance with the accounting regulations in force in the Republic of Serbia explained in the Note 2.1, which were audited.

Accounting policies and estimates applied in the preparation of the financial statements are consistent with the accounting policies and estimates applied in the preparation of the annual financial statements of the Company for 2019.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Income and Expense Recognition

(a) Interest Income and Expenses

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

Interest income and expenses are recognized in the income statement using the effective interest rate method (which in the case of interest income does not include finance lease origination fees). The effective interest rate method represents a method for calculating the amortized cost of a financial asset or financial liability and corresponding interest income/expense allocated to the appropriate reporting period. The effective interest rate is the rate used to discount future cash flows over the repayment period of a financial instrument to its carrying amount.

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

(b) Fee Income

Fee income includes finance lease origination fees which are charged to lessees, recharged expenses of lease beneficiaries for registration of lease agreements in the finance lease register, insurance, registration and other costs, income from intercalary interest, income from charging costs for issuing warnings and other costs of related to default is settling liabilities by lessees.

Finance lease origination fees are calculated and charged in advance, and are allocated over the duration of the finance lease agreement period.

(c) Fee Expenses

Fee expenses comprise fees paid to banks for payment operations and for other banking services, including costs that are recharged to lessee for registering a lease agreement in the finance lease register, insurance costs, registration and other costs that are recharged to lessee. These costs are allocated and posted under expenses in the periods they relate to.

(d) Other Expenses

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

(e) Other Income

Other income primarily relates to income from agent's commission in insurance business and recognized in the income statement when occurred.

3.2 Foreign Currency Translation

Items reported in the financial statements are measured using the currency of the Company’s primary economic environment (functional currency). As disclosed in Note 2.1, the financial statements are presented in thousands of Dinars (RSD), which represents the functional and official reporting currency of the Company.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Foreign Currency Translation (continued)

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

Foreign exchange gains and losses arising on translation of assets and liabilities denominated in foreign currencies and from business transactions in foreign currency are reported in the Company's Statement of profit and loss as foreign exchange gains and losses and gains and losses arising on FX clause (Note 7).

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

For the translation of monetary assets and liabilities, the Company used the official middle exchange rates of the National Bank of Serbia ("NBS") prevailing at the balance sheet date:

In RSD	31 December 2020	31 December 2019
Currency		
- CHF	108.4388	108.4004
- EUR	117.5802	117.5928

Investments and liabilities related to basic contracts which are tied to a foreign currency (foreign currency clause) or another variable, are revalued in accordance with contractual clauses. Valuation effects are recorded as net foreign exchange gains/losses and net gains/losses from foreign exchange clause.

During 2020, the Company used contractual exchange rates for the translation of receivables from finance lease activities, and recorded net foreign exchange gains/losses and net gains/losses from foreign exchange clause in the income statement.

3.3 Cash

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

A financial asset is measured at amortized cost unless designated as measured at fair value through profit and loss, and meets the following criteria:

- the objective of a business asset model is to keep the asset in order to collect contracted cash flows and
- contractual terms of a financial asset lead to cash flows that represent only principal payments and interest on the principal balance on specified dates.

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

The accounting policy for calculating impairment is explained in Note 3.7.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Financial placements held with banks

Financial placements held with banks comprise:

- foreign currency accounts and
- term deposits with banks.

Term deposits are initially measured at fair value. After initial recognition, they are recorded at amortized cost.

A financial asset is measured at amortized cost unless designated as measured at fair value through profit and loss, and meets the following criteria:

- the objective of a business asset model is to keep the asset in order to collect contracted cash flows and
- contractual terms of a financial asset lead to cash flows that represent only principal payments and interest on the principal balance on specified dates.

In cases when the Company makes agreements about short term deposits with foreign currency clause or about foreign currency deposits, after initial recording the effects of foreign currency clause are being calculated as well as foreign exchange gains or losses which are recorded within Statement of profit and loss as Net foreign exchange gains/losses and net gains/losses from foreign exchange clause.

The accounting policy for calculating impairment is explained in Note 3.7.

3.5 Other financial placements and derivatives

Other financial placements relate to purchased securities that are measured at fair value through other comprehensive income and investments in investment funds that are measured at fair value through profit or loss.

Debt instruments are valued at fair value through other comprehensive income only if it meets both of the following criteria:

- the objective of a business asset model is to keep the asset in order to collect contracted cash flows and sales and
- contractual terms of a financial asset lead to cash flows that represent only principal payments and interest on the principal balance on specified dates.

Initially, they are measured at fair value, plus transactions costs, that are directly attributable to the acquisition or issue of the financial asset.

After initial activation, financial assets are measured at fair value. The Company determines the fair value of securities and records the difference between fair value and book value as unrealized gain or loss on securities within the position Reserves, revaluation reserves and unrealized gains/losses (Note 27).

Subsequent valuation of investments in investment funds is recognized in the income statement under Net gain\(loss) on other financial instruments at fair value through profit or loss.

As at 31 December 2019 the Company doesn’t have financial derivatives.

The accounting policy for calculating impairment is explained in Note 3.7.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Receivables from finance lease activities

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

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

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

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

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

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

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

Other receivables from finance lease comprise:

- fees;
- interest;
- costs transferred to lessee; and
- warnings.

The Company calculates indirect impairment provision in accordance with applicable “Asset classification policy” and recorded as income or expense of the period under the item Net revenue/(expenses) from impairment of receivables under financial leasing and financial assets.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment of Financial Assets

According to internal policy, as at each reporting date the Company calculates and recognizes impairment that is equivalent to expected credit losses over the lifetime of a financial asset that is measured at amortized cost (which include lease receivables) and for financial debt instruments that are recorded at fair value through other comprehensive income, except for financial assets for which no significant increase in credit risk is observed from the moment of initial recognition.

The carrying amount of financial instruments measured at amortized cost is reduced by the amount of impairment losses for expected credit losses.

Allowances for expected credit losses on debt financial assets measured at fair value through other comprehensive result are recognized through other income and income statement, and the carrying amount of the balance sheet is not impaired.

The impairment method for financial assets is set out in the Asset Classification Policy.

Impairment is measured according to one of the following:

- 12-month expected credit losses - these are expected credit losses that arise if the default settlement status occurs within 12 months of the reporting date; and
- lifetime expected credit losses - these credit losses are the result of possible default events over the expected lifetime of a financial instrument.

Calculation of lifetime expected losses is performed if the credit risk of a financial asset on reporting date is significantly increased compared to the initial date of recognition of that asset, otherwise 12-month expected credit losses are calculated.

The Company classifies its risk assets according to the Harmonized International Subsidiary Banks Division (ISBD) methodology for asset classification. The risk assets classified are related to the credit exposure from the balance sheet.

Criteria for classification of receivables are:

a) Objective criterion for the classification of debtors is delay in settlement of obligations.
   A new calculation in delay in settlement of obligations has been defined by the decision of the Company's Managing Board dated 27 February 2020. Calculation of days of delay is performed daily, where the end of month balance of days of delay is considered for classification and provision classification purposes.
   A delay is considered materially significant if the amount of matured receivables is over 1% of receivables from the debtor, as is over 10,000 dinars for a legal entity debtor, or 1,000 dinars for a private individual debtor, entrepreneur or farmer. The number of days of delay at client level is determined as the continual number of days of delay above the materiality threshold. Subjective classification criteria include any other information that may indicate that it is unlikely that the client will fully fulfill his contractual obligations.
b) Economic group;
c) Contamination rule.

The classification of assets is based on the objective and subjective criteria set forth in the Classification of Assets Policy. Collateral or guarantees established as collateral cannot affect the class of the client, but only at the level of calculated value adjustments.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment of Financial Assets (continued)

Receivables are classified into one of the following classes:

a) Non – Performing Receivables

Doubtful

The classification must be based on the criteria for assessment of lessees that are in line with the definition of lessees as truly insolvent. A "state of insolvency" signifies structural and continued inability to settle liabilities from regular sources due to lack of liquidity and/or absence of ability to access external sources of financing (e.g. capital markets) required for maintaining / securing a going concern status.

Unlikely to Pay

The classification in the category Unlikely to pay is the result of the Company's assessment that it is unlikely that the user of the leasing contract will fully fulfill its obligations (in terms of repayment of principal and / or interest) without resorting to activities such as the execution of collection from collateral. Such an assessment is made regardless of the amount and number of days of delay. In Unlikely to Pay Class clients who have credit quality indicators are significantly worse and who do not expect future cash flows to fully service their financial obligations.

Past Due

The client has temporary problems which can be overcome and conditions for the classification of debtors as Unlikely to pay or Doubtful are not met. The total exposure to the debtor will be classified under the category Past due if the delay is longer than 90 days in a materially significant amount (the amount of matured debt exceeds 1% of the total debt more than 90 days in continuity, and amounts to more than RSD 10,000 for debtor that is a legal entity or RSD 1,000 for debtor who is an individual, entrepreneur or a farmer).

b) Performing Receivables

This class includes all clients who are not classified in one of the non-performing classes and pay off their liabilities to the Company on a regular basis or with a delay of up to 90 days. Performing clients are clients who are not classified in one of the non-performing classes and who regularly settle their obligations toward the Company.

Exposure with PM status - Watchlist

Exposure with PM (Proactive Management) status relates to exposures with increased credit risk and do not represent a separate classification within the Performing category.

Exposure with PM status are exposures to clients who, due to their characteristics or external reasons, are facing various degrees of (financial and/or business) difficulties with potential later deterioration in their creditworthiness. Placements with PM status include exposures that are still considered Performing, but are not under direct, but potential risk (of default) if certain measures are not undertaken in time. In other words, PM exposures include exposures that show the first signals of potential risk. Besides this, all exposures for which restructuring plans are at the negotiating stage are included in this category.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment of Financial Assets (continued)

Forborne exposures

Forborne exposures are exposures whose initial contractual terms have been altered and /or placements that are partly or fully refinanced due to financial difficulties that prevent the client from meeting original contractual obligations.

Forbearance measures are concessions to a debtor who is facing or will face difficulties in meeting its financial obligations.

The term concession implies the following:

- amendments to previous contractual conditions which the debtor is deemed unable to meet due to financial difficulties, in order to allow sufficient debt repayment capacity, and which would not have been approved if the debtor was not in financial difficulties;
- total or partial refinancing of a nonperforming loan agreement that would not have been approved if the debtor was not in financial difficulties;
- contractual changes that the debtor can request within the framework of a contract that has already been signed and approved by the Company, with the knowledge that the debtor is in financial difficulties (the so-called "embedded forbearance clauses").

Minimum criteria for reclassification (return) to Performing status

From the moment when the criteria that brought the client into the NPL status are no longer effective, a Trial Period is initiated which cannot be shorter than 90 days, during which the client remains in NPL status. In the event that the client is more than 5 days late during the Trial Period for a materially significant amount, the counting of days in the Trial Period is reset to the beginning. The trial period applies to all NPL clients, except for clients in Forborne status for whom the monitoring period lasts at least 12 months.

Upon expiration of the Trial Period, the following should be considered for reclassification (return) to Performing status of clients who were NPLs:

a) regularity of settlement of obligations during the Trial Period;
b) the financial situation of the debtor during the Trial Period;
c) if after the Trial Period it is determined that the debtor is likely to be unable to pay its obligations in full without resorting to collateral activation, exposures should also be classified as NPLs until the Company considers that the improvement in the quality of placements is permanent.

The trial period lasts for 90 days starting from the point where the default status triggers are no longer active for the client.

The trial period is reset if at least one of the following conditions occurs:

- Both materiality thresholds of arrears were exceeded for more than 5 days or
- A new subjective criterion has been identified.

Trial period for Past due exposures

For clients who are in Past due status, if there is no overdue status over the materiality threshold (absolute or relative) during the 90-day trial period, the client automatically returns from Past due status to Performing status.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment of Financial Assets (continued)

Manual return from Trial Period

In case the client has no late exposure, the return to Performing from the Unlikely to Pay and Doubtful categories is based on subjective assessment (taking into account all subjective classification criteria). A client is considered eligible to return to Performing status after 90 days only if he has paid all due obligations. A client who does not have a material delay in the past 90 days, but still has an amount in arrears, cannot leave Unlikely to Pay status until he pays the due obligations.

For Non-Performing Forbore Exposures, the application of a 12-month recovery period takes precedence over the Trial Period.

Impairment calculation

In addition to Classification of receivables in the Performing, Past Due, Unlikely to Pay and Doubtful classes, the Company classifies receivables into the following impairment stages:

- Stage 1;
- Stage 2; and
- Stage 3.

The levels of impairment determine the method of calculating expected credit losses. The 12 month expected credit losses are calculated for Stage 1 receivables, while the expected losses to the end of the Lifetime Expected Loss are calculated for receivables in Stage 2 and Stage 3.

Stage 3 includes all Non-performing receivables, while Stage 1 and Stage 2 represent "subclasses" within the Performing Receivables. Stage 2 includes Performing Receivables in which a significant increase in credit risk has occurred in relation to the moment of initial recognition.

The Company uses the following criteria to detect receivables for which there has been a significant increase in credit risk (and consequently classifies them to Stage 2):

1. Delay over 30 days - Receivables from customers who are over 30 days late in a material amount.
2. PM (Proactive Management) status / EW (Early Warning) signals - clients assigned orange, red or light blue colors.
3. Forborne status.
4. Significant increase in the probability of going into default status (PD) from the moment of initial recognition - Relative change in PD (Lifetime PD) in relation to the moment of initial recognition, which is above the defined materiality threshold, leads to the classification of receivables to Stage 2. Thresholds for significant increase of PD for the segments Corporate, SME Retail, Specialized lending and for Retail Clients are defined internally by the Bank, while for other segments of the portfolio the thresholds are defined by the Parent Company.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment of Financial Assets (continued)

The criteria for the classification of financial instruments in levels of impairment are summarized in the table below:

Stage 1	Stage 2	Stage 3
• Performing exposure up to 30 days delay • Performing exposure with more than 30 days delay but below the materiality threshold • Performing exposures for which there has been no significant increase in PD since initial recognition • Performing exposures that are not in Forborne status • Performing exposures that are not in PM status and have not been identified through the EWS as high-risk exposures	• Performing exposure with more than 30 days of delay over the materiality threshold • Forborne performing exposure • Performing exposures with PM status / EWS colors that indicate increased risk • Performing exposures with a significant increase in PD from the moment of initial recognition.	• Exposures with more than 90 days of delay over the materiality threshold • Unlikely to Pay • Doubtful • NPL Exposure in the Trial Period • Forborne NPL exposure

In addition to the criteria defined above, in conditions of temporary crisis such as that caused by the COVID 19 pandemic, the Company may reclassify, for the purposes of classification and calculation of provisions for credit losses, to one rating class worse, or to Impairment Stage 2 (Stage 2) those clients / exposures whose increased credit risk has been identified. The increase in credit risk can be determined on the basis of, for example: the client's affiliation with an industry that has been determined to be particularly negatively affected by the crisis, and / or based on the client's level of indebtedness, potential vulnerability to the negative effects of the crisis, etc.

Impairment losses are calculated on the basis of parameters obtained from internal models or by individual assessment (except for receivables from countries, local governments and banks where ISP model parameters are used), and impairment losses are recorded in the income statement.

Impairment on the basis of credit losses (expected credit losses) is estimated on the basis of:

a) Collective impairment for all performing exposures, as well as non-performing exposures whose total exposure is less than EUR 250,000; and
b) Individual impairment for non-performing exposures with a total exposure greater than EUR 250,000.

Expected credit losses for clients that are not subject to individual assessment are calculated depending on the Impairment Stage to which the receivable is classified (Stage 1, 2 or 3) according to criteria for determining credit risk stage.

For all exposures belonging to Stage 1, loan loss provisions (expected credit losses) are calculated for a period of 12 months.

For all Stage 2 exposures, loan loss provisions (expected credit losses) are calculated for the period to maturity of the financial instrument (Lifetime EL).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment of Financial Assets (continued)

For exposures belonging to Stage 3 (non-performing exposures), the Company introduces an “Add-on” in the calculation, as a correction of the provision stage. The "Add-on" is a measure of future (expected) macroeconomic impact on the level of LGD rates in the coming period.

Impairment of assets, for clients that are not subject to individual assessment, is calculated depending on the level of impairment in which the receivable is classified (Stage 1, 2 or 3) according to defined criteria.

The collective assessment is based on the expected Probability of Default (PD) and Loss Given Default (LGD) parameters.

The discount rate used in the calculation is the effective interest rate of the individual agreement. In the context of calculation of ECLs a methodology has been developed for calculating Exposure at Default (EAD) for all periods up to final maturity of a financial instrument. For finance lease receivables that are amortized and for which repayment schedules are available, future EAD’s are calculated based on their repayment schedule.

The probability of default (PD) is the probability of performing receivables / borrower goes into default.

- For clients in non-performing classes Stage 3 (Stage 3) PD is 100%.
- For exposures belonging to Stage 1 (Stage 1) and Stage 2 (Stage 2) that relate to clients with calculated internal rating, the appropriate value of the PD parameter is assumed depending on the rating and segment.
- For exposures of clients that do not have a rating at the reporting date, and that belong to segments covered by the PD model, the default rate on the portfolio of unrated clients is determined, and then the first more conservative rating closest to the obtained value is assigned to such clients. Thereafter, in accordance with the obtained rating, the exposures are assigned the appropriate PD parameter (Lifetime PD or 12-month PD) depending on the Level to which the exposures belong (Stage 1 or Stage 2).
- For client exposures belonging to segments not covered by the PD model, the PD is determined based on historical default rates of a particular segment, which are further adjusted for the macroeconomic impact projection using appropriate macroeconomic indicators for different scenarios, in accordance with IFRS 9.
- For exposures related to members of the Intesa Sanpaolo Group, the PDs defined in the document Manual for Calculation of IFRS 9 Lifetime PDs of Banca Intesa apply.
- For exposures belonging to the segments of the Bank, Government, Central Bank and Local Self-Government, the PDs defined in the document Manual for Calculation of IFRS 9 Lifetime PDs of Banca Intesa apply.

Internal rating and corresponding PD values are taken over from the Risk Management Division and are calculated in accordance with the procedures and rules of the Parent Bank - Banca Intesa a.d. Belgrade.

The LGD parameter is calculated based on the analysis of historical data, separately for homogeneous portfolio segments. LGD is calculated separately for each of the 4 basic types of leasing items (passenger vehicles, commercial vehicles, equipment, real estate) that may be subject to financing, based on the analysis of historical losses incurred by clients who were in the non-performing class at any moment since 1 January 2011 until the moment of calculation. Thus calculated historical LGD for basic types of leasing items, in the calculation of provisions is applied to all subcategories of items within the basic type.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment of Financial Assets (continued)

The loss rate in case of default status (LGD) for each type of leased asset is obtained as the average of all loss rates under individual leases that are subject to analysis, while the individual rate for each lease is the result of the total loss recorded until the date of calculation. The individual LGD rate for each observed contract is obtained by comparing all losses under the given contract on the day of calculation and the current exposure to the client when assigned default status. If the client returns to the performing status, the LGD rate for all his contracts will be 0% because it is considered that his transfer to the performing class fulfills all the conditions for that in accordance with the classification policy, that there are no losses under that contract and that the client continues to settles obligations regularly.

LGD values obtained in this way represent Nominal LGD values, which before final application are additionally adjusted to macroeconomic coefficients (in accordance with IFRS 9) and discounted by the effective interest rate of the individual contract.

When calculating loan loss provisions, PDs and LGDs are applied to a base (EAD) equal to the gross exposure under each lease agreement.

For exposures that exceed the materiality threshold (EUR 250 thousand) and relate to clients classified as Doubtful or Unlikely to Pay, the assessment is made on an individual basis. It is based on an assessment of the client's financial situation and ability to pay, taking into account the client's repayment capacity (going concern) and / or collection based on the type and value of collateral (gone concern), taking into account future forward-looking information and macroeconomic expectations through application of different scenarios. Provisions for credit losses are equal to the difference between the carrying amount of the receivable and the amount that is expected to be collected. The amount of expected collection represents the net present value of expected cash flows discounted at the effective interest rate of the contract (EIR).

The macroeconomic adjustment of PD is thus carried out using stress coefficients obtained from the EBA PD stress test model. The coefficients were submitted by the Parent Bank and define the change of the PD parameter in relation to the base year for the redefined segment. EBA parameters are submitted only for the baseline and unfavorable scenario, such that calculation of the favorable scenario is done separately as the difference between the transformed values of the baseline and unfavorable PD parameters, which are added to the baseline scenario. The transformation is performed using the inverse standard normal distribution. The default rate of the Serbian banking sector as of December 31, 2019 is used as the initial default rate in relation to which the change in the default rate based on the EBA stress test parameters for the Rest of the World is calculated, since coefficients for Serbia are not available. The table below shows the conditional default rates applied to the migration matrix to include elements relating to future events for the next 3 years from the reporting date:

			Conditional default rates - First group								
			Unfavorable			*Basic*			*Best*		
Segment	**Model**	*t-1*	*t*	*t+1*	*t+2*	*t*	*t+1*	*t+2*	*t*	*t+1*	*t+2*
Corporate	*SME&LC-2015*	*1.29%*	*3.22%*	*3.12%*	*2.36%*	3.14%	2.16%	1.15%	3.07%	1.47%	0.54%
	SME Retail	*3.32%*	*7.23%*	*7.04%*	*5.56%*	*7.09%*	*5.16%*	*3.00%*	*6.95%*	*3.71%*	*1.55%*
	SB-SE-2013	*3.22%*	*7.04%*	*6.85%*	*5.41%*	*6.90%*	*5.01%*	*2.90%*	*6.76%*	*3.60%*	*1.50%*
Retail	*IDV-2015 – Mortgage*	*0.65%*	*0.88%*	*0.87%*	*0.78%*	*0.87%*	*0.75%*	*0.58%*	*0.86%*	*0.65%*	*0.42%*
	IDV-2015 – Other Retail	*1.99%*	*2.85%*	*2.81%*	*2.47%*	*2.82%*	*2.38%*	*1.77%*	*2.78%*	*2.00%*	*1.24%*

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment of Financial Assets (continued)

				Conditional default rates - Second group								
				Unfavorable			*Basic*			*Best*		
Segment	**Model**	**Stage**	*t-1*	*t*	*t+1*	*t+2*	*t*	*t+1*	*t+2*	*t*	*t+1*	*t+2*
Corporate	*CORPORATE - OTHER*	*Stage 1*	*1.60%*	3.87%	3.76%	2.87%	3.79%	2.63%	1.43%	*3.70%*	*1.81%*	*0.69%*
		Stage 2	*6.85%*	13.30%	13.00%	10.66%	13.08%	9.99%	6.27%	*12.86%*	*7.54%*	*3.52%*
	RETAIL	*Stage 1*	*7.39%*	14.16%	13.85%	11.40%	13.93%	10.70%	6.78%	*13.70%*	*8.12%*	*3.84%*
	OTHER	*Stage 2*	*59.11%*	*72.32%*	*71.88%*	*67.93%*	*71.99%*	*66.64%*	*57.33%*	*71.65%*	*60.99%*	*46.12%*

Macroeconomic LGD conditioning was performed using EBA coefficients in the absence of internally developed models (given that EBA relies only on Basic and Unfavorable coefficients, coefficients for a Favorable scenario were calculated internally based on Group methodologies written for this purpose). Forward-looking elements were calculated for next 3 years remaining to maturity after reporting date, such that risk parameters of the Base scenario were adjusted as an add-on that takes into account all three scenarios. For LGD conditioning EBA coefficients for the Rest of the World were used, given that coefficients are not available for Serbia. The value of coefficients differs, depending on leasing segment. The table below shows the coefficients used for macroeconomic conditioning of LGD values, as well as the value of the additional component (Add on) obtained on the basis of all three scenarios:

	Best			*Basic*			*Unfavorable*			
Segment	*t*	*t+1*	*t+2*	*t*	*t+1*	*t+2*	*t*	*t+1*	*t+2*	Add on
Consumer credit	*0.75*	*0.75*	*0.75*	*1.00*	*1.00*	*1.00*	*1.28*	*1.28*	*1.28*	*2.49%*
Household mortgage	*0.47*	*0.47*	*0.47*	*0.84*	*0.84*	*0.84*	*1.30*	*1.30*	*1.30*	*10.77%*
NFC nonRE	*0.76*	*0.76*	*0.76*	*1.00*	*1.00*	*1.00*	*1.27*	*1.27*	*1.27*	*2.26%*
NFC RE	*0.57*	*0.57*	*0.57*	*0.91*	*0.91*	*0.91*	*1.31*	*1.31*	*1.31*	*6.80%*

Parameters generated by internal models of Intesa SanPaolo are used for exposures that are in the Low Default Portfolio (governments, local self-governments and banks), given that in this portfolio segment the Company does not have sufficient historic data to calculate them on its own.

Projected cash flows are discounted to their present value using the effective interest rate. Impairment loss is measured as the difference between the carrying amount of a leasing placement and its estimated recoverable amount, being the present value of expected future cash flows.

The gross carrying amount of the assets is reduced using the impairment allowance, and expected credit losses incurred on the basis of impairment of financial assets are recorded in the income statement as expenses from impairment of receivables based on financial leasing and financial assets (Note 9).

If, during the subsequent period, there is a decrease in the amount of a recognized impairment loss arising as a result of an event occurring after a previously recognized impairment, a previously recognized impairment loss is reduced by adjusting the allowance account and the amount of the adjustment is recognized in the income statement as income from impairment of receivables based on financial leasing and financial assets (Note 9).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment of Financial Assets (continued)

Uncollectable receivables write-off

Financial assets are written-off in accordance with the User Guidelines for Write-off of Uncollectable Receivables. The procedure relates to the write-off of receivables that meet the following requirements: delay in payment of specific receivable; the Company has failed to collect receivables despite the implementation of all activities of collection specified by its policies and procedures; judicial or extrajudicial procedures of settlement of receivables have been initiated; receivables are fully impaired.

The Accounting Department makes recommendations for write-off, while the Company's Board of Directors or the Executive Board are charged with their approval.

The Company's Executive Board is charged with approval of write-offs of receivables up to EUR 10,000, while the Company's Board of Directors is charged with approval of write-offs of receivables above EUR 10,000.

3.8 Repossessed leased assets and inventories

(a) Repossessed leased assets

In a situation of early termination of the finance lease contract, the leased asset will be repossessed, and the value of the financial placement or receivables will be recorded under Repossessed lease assets accepted in exchange for uncollected receivables that are measured initially and subsequently at the lower of: estimated value (fair value) or unamortized value of the financial investment (carrying amount).

Valuation of a repossessed lease asset is performed regularly by a certified appraiser, with any change in value due to significant changes in the market prices or changes in the physical condition of the asset, and at least once during the period of one year from the previous valuation. During the valuation, market factors, depreciation, as well as technical conditions of the lease asset are taken into consideration.

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

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

(b) Inventories

Inventories of the Company comprise:

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

Inventories are initially recorded at cost. After initial recognition, these assets are valued at the lower of cost and net realizable value.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Intangible assets

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

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

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

The Company applies the straight-line method for calculation of amortization for intangible assets for which useful life is 5 years. The annual amortization rate for intangible assets is 20%. During 2020, there were no changes in depreciation rates, in comparison to the previous period.

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

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

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

3.10 Property, plant and equipment

Property, plant and equipment of the Company as at 31 December 2020 comprise equipment. The equipment is stated at cost, less total accumulated depreciation and any accumulated impairment losses. Purchase value is consist of the invoiced value plus all expenses incurred to bringing the asset to the proper state and location.

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

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

The applied annual depreciation rates are as follows:

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

The useful lives of assets are reviewed periodically, and adjusted if necessary at each balance sheet date. Changes in expected useful lives of assets are accounted for as changes in accounting estimates. During 2020, there were no changes in depreciation rates, in comparison to the previous period.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Property, plant and equipment (continued)

The calculation of the depreciation and amortization for tax purposes is prescribed by the Corporate Income Tax Law ("RS Official Gazette" no. 25/2001, 80/2002, 43/2003, 84/2004, 18/2010, 101/2011, 119/2012, 47/13, 108/2013, 68/2014, 142/2014, 91/2015, 112/2015, 113/2017, 95/2018, 86/2019 and 153/2020) and the Rules on the Manner of Fixed Assets Classification into Groups and Depreciation for Tax Purposes ("RS Official Gazette". no. 116/2004, 99/2010 and 93/19), which gives rise to deferred taxes (Note 14).

3.11 Lease assets

As of 1 January 2019 the Company is applying IFRS 16 *Leases*.

In concluding a contract, the Company first assesses whether the contract has lease components. A contract has a lease component if it transfers a right-of-use asset over a certain period of time in exchange for compensation. In order to assess whether a contract transfers this right the Company uses the lease definition provided by IFRS 16. This policy is applied to contracts that were signed (or modified) since 1 January 2019, which is the date as of which this standard is applied.

Company as a lessee

In concluding a contract that has a lease component, or at the time of its modification, the Company allocates the contractual compensation to each lease component based on the appropriate lease price of each component.

The Company recognizes a right-of-use asset and the corresponding lease liability at commencement date. A right-of-use asset is initially measured at cost, which includes the initial amount of the lease liability, adjusted for lease payments made on or before lease commencement date, increased for initial direct costs and estimated costs necessary for returning the asset to its initial condition, in the case of lease of commercial premises.

Besides the aforementioned, the cost of a right-of-use asset also includes:

- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

The right-of-use asset is subsequently amortized on a straight line basis over the period from inception to contract maturity. Also, periodically the asset is tested for impairment and, if it is, its carrying amount is decreased for the estimated amount of impairment, with the corresponding adjustment in the amount of the lease liability.

The Company as lessee uses the practical expedient provided by the standard and does not recognize short-term leases (up to 1 year) and small value leases (when the value of the lease asset, as new, is under EUR 5,000 without tax) as right-of-use assets, where all payments arising from such leases are recognized as period expenses.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Leased assets (Continued)

At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date. Future lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate effective at commencement date.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, lease liabilities are measured by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications that are significant for its remeasurement.

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate (for the remaining lease term) in the event of:

- change in the lease term and
- change in the assessment of an option to purchase the underlying asset.

Lease modifications

A lease modification is accounted for as a separate lease if both:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification, activities are carried out as required by the standard to allocate the consideration in the modified contract, determine the lease term of the modified lease, and remeasure the lease liability by discounting the revised lease payments using a revised discount rate.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Leased assets (Continued)

For a lease modification that is not accounted for as a separate lease, the lessee shall account for the remeasurement of the lease liability by:

- decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The lessee shall recognize in profit or loss any gain or loss relating to the partial or full termination of the lease; and
- making a corresponding adjustment to the right-of-use asset for all other lease modifications.

The Company recognizes a right-of-use asset under Property, plant and equipment, while it recognizes the corresponding lease liability under Other financial liabilities and derivatives, which relate to lease of real-estate property and vehicles. The amortized cost of a right-of-use asset is recognized under Amortization expense in the profit and loss account, while the amortization of lease liabilities is recognized under Interest expenses in the profit and loss account. Costs arising from short-term and small value leases are recognized under Other expenses.

3.12 Impairment of non-financial assets

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

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

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

3.13 Borrowings from Banks and Other Financial Institutions

All loans and borrowings are initially recognized at cost which represents the fair value of the amount received, decreased for any expenses related to the borrowing.

After initial recognition, borrowings from Banks are subsequently measured at amortized cost.

3.14 Provisions

Provisions are recognized when:

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Provisions (continued)

When the outflow of economic benefits is no longer probable, in order to settle a legal or enforceable obligation, the provision is canceled for the benefit of the income. Provisions are monitored by type and can be used only for expenditure for which it was originally recognized. Provisions are not recognized for future business losses.

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

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

In accordance with the General Collective Agreement (“RS Official Gazette”, no. 50/2008, 104/2008 – Annex I and 8/2009 – Annex II) and the Labor Law (article 119) (“RS Official Gazette”, no. 24/2005, 61/2005, 54/2009, 32/2013 and 75/2014, 13/2017-decision CC, 113/2017 i 95/2018-authentic interpretation),the Company is obliged to pay to an employee severance pay in the amount of two average salaries in the Republic of Serbia, according to the latest data of the authority in charge of statistics.

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

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

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

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

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

Provisions for court cases are formed when there is a probability that a liability exists and its amount can be reliably estimated after careful analysis. The required provision can change in the future due to new events or receipt of new information.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Contingent Liabilities and Contingent Assets

Contingent liabilities are not recognized in the financial statements. Contingent liabilities are disclosed in the notes to the financial statements (Note 29(a)), unless the possibility of outflow of resources embodying economic benefits is remote.

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

3.16 Employee benefits

(a) Employee Taxes and Contributions for Social Security

In accordance with the regulations prevailing in the Republic of Serbia, the Company has an obligation to pay tax and contributions to various state social security funds. These obligations include contributions charged to employees and charged to employer in amounts that are calculated using rates prescribed by law.

The Company is required by law to withhold calculated contributions from the employee's gross salary and to make payments of withheld amounts on the employee's behalf to appropriate state 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 on behalf of the employee and the employer are recognized expensed in the period they occur (Note 11).

(b) Other Employee Benefits - Retirement Benefits

The defined benefit liability comprises the present value of the defined benefit obligation less past service cost and actuarial losses, and increased by actuarial gains not yet recognized (Note 3.14).

(c) Short-term paid leave

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

An employee can use his vacation only with the employer where he realized the right to have vacations, and in case that he does not use its vacation completely or partly he has the right to get compensation according to the Labor Law ("RS Official Gazette" No 24/2005, 61/2005, 54/2009, 32/2013, 75/2014, 13/2017-decision CC, 113/2017 and 95/2018-authentic interpretation).

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

The Company does not have its own pension funds, nor any employee share based options and did not identify any liabilities in this respect as at 31 December 2020.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 Taxes and contributions

Current Income Tax

Current income tax is calculated and paid in accordance with the effective Corporate Income Tax Law ("RS Official Gazette", number 25/2001, 80/2002, 43/2003, 84/2004, 18/2010, 101/2011, 119/2012, 47/13, 108/2013, 68/2014, 142/2014, 91/2015, 112/2015, 113/2017, 95/2018, 86/2019 and 153/2020) and by-laws.

Current income tax represents the amount calculated by applying the prescribed tax rate of 15% to the tax base indicated in the tax balance and after can be reduced by applicable tax credits. The tax base includes taxable profit, determined by adjusting the taxpayer's result (profit or loss) reported in the Statement of financial position, in the manner prescribed by this Law.

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

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

Deferred income tax

Deferred income tax is calculated by applying the liability method to all temporary differences as at balance sheet date that result between the present value of assets and liabilities in the financial statements and their values for tax purposes.

A deferred tax liability is recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

(a) initial recognition of goodwill; or
(b) the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of transaction, that affects neither accounting profit nor taxable profit (tax loss).

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

Deferred tax assets are recognized for all taxable temporary differences and transfers of unused tax credits and tax losses up to the amount for which it is probable that taxable profit will be available against which carried forward unused tax credits and unused tax losses can be used.

In calculating deferred tax assets and liabilities, tax rates are used that will be effective in year of exercising the tax benefits or settlement of deferred tax assets, based on currently-enacted tax rates and regulations at or after the balance sheet date. The tax rate used for calculating deferred tax assets in 2020 is 15%, and is the same as in previous year.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 Taxes and contributions (continued)

Current Tax Assets/Liabilities

In accordance with accounting regulations effective in the Republic of Serbia, if the amount of income tax paid for current and previous periods is higher than income tax payable for the period, the difference is recognized as a tax asset.

The Company has presented data on current tax liability for 2020 and 2019 in Note 14.

Transfer pricing

The tax balance for 2020 has not been submitted until the date of the Company's financial statements, as the time limit for submission is 180 days from the date on which the tax is determined. The Company calculated tax effects based on the Corporate Income Tax Law of the Republic of Serbia. The Company has not performed a study of transfer prices, but management believes that on this basis will not have a material effect on the year 2020 because it has not had, and in 2020 there were no significant changes in the types of services in relation to the previous year.

Taxes and contributions not related to operating result

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

3.18 Other Assets and Other Liabilities

Other assets include receivables from the sale of seized objects of leasing and other receivables, as well as prepaid expenses and other accruals.

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

3.19 Related party transactions

For the purpose of these financial statements, entities are treated as related parties if one entity has the ability to control the other entity or to exert significant influence on the financial and business decisions of the other entity in accordance with IAS 24 Related Party Disclosures.

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

4 KEY ACCOUNTING ESTIMATES AND JUDGMENTS

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.

Such estimates and assumptions are based on information available as at balance sheet date. Actual results might differ from the indicated estimates. Estimates and assumptions are continually reviewed, and when adjustments are necessary, they are reported in the income statement in the periods in which they became 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 recognizes a value adjustment for expected credit losses for financial assets measured at amortized cost or for debt financial assets that are recorded at fair value through other comprehensive result.

The carrying amount of financial instruments measured at amortized cost is reduced by the amount of impairment losses for expected credit losses.

Provisions for expected credit losses for financial debt instruments measured at fair value through other comprehensive income are recognized through other comprehensive income and the profit and loss account, and their carrying amount cannot be decreased in the balance sheet.

After initial recognition provisions for expected credit losses are calculated on each reporting date. The Company estimates on each reporting date the level of impairment of financial assets measured at amortized cost or at fair value through other comprehensive income (FVOCI), as well as of contract assets. The company estimates impairment based on the forward-looking model of expected losses in accordance with IFRS 9.

Impairment is measured according to one of the following:

- 12-month ECLs - these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime expected credit losses - these credit losses are the result of possible default events over the expected lifetime of a financial instrument.

Measurement of lifetime expected losses is applied if the credit risk of a financial asset on reporting date is significantly increased compared to the initial date of recognition of that asset, otherwise measurement of 12-month expected credit losses is applied. The Company can estimate that the credit risk of a financial asset has not increased significantly if as at reporting date the asset has a low credit risk.

Assumptions and estimates used by the Company as inputs in the model of valuation of expected credit losses, as well as estimates of significant increase in credit risk, are disclosed in Note 3.7.

4 KEY ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Classification of financial assets

The Company assesses the business model within which the financial assets are held. Also, the Company assesses whether contractual cash flows of financial assets represent only payments of interest and principal.

Business model assessment

The Company analyzes business model approaches at the portfolio level of financial assets, since it best reflects the way business management and information are delivered to the management.

The information under consideration relates to portfolio policies and strategies, as well as their application in practice. In particular, it is important whether the strategy of the management is based on contracted interest income, the adjustment of the period of the duration of financial assets and the obligations for which the funds are financed, or the strategy is based on the realization of cash flows through the sale of assets. Also, the Company considers information on the way ratings and reporting on portfolio performance, and information about the risks that affect the performance of the portfolios and how they are managed. In addition, the Company considers the frequency, scope and timing of the sale of financial assets over the past periods, the reasons for the sale and plans for the sale of financial assets in the future period.

An assessment of whether contracted cash flows represent only interest and principal payments

For purposes of estimation, "principal" represents the fair value of a financial asset at the date of initial recognition. "Interest" is defined as compensation for the time value of money and for credit risk associated with the balance of the principal over a specific period of time, as well as for other basic credit risks (such as liquidity risk, administrative costs) and profit margin.

When assessing whether the contractual cash flows represent solely payment of principal and interest (SPPI), the Company considers the contractual terms of financial instruments and whether they contain provisions that could change the time or amount of contracted cash flows, which would resulted in a fair valuation of instruments. The key contract terms that are considered in the assessment are: characteristics of leverage, options for overtime or prepayment, characteristics that limit the Company's right to cash flows on the amount of the asset as well as the characteristics that lead to modification of the time value of money, such as periodic interest rate adjustment financial assets with variable interest rate.

Useful Lives of Intangible Assets, Property, Plant and Equipment

Determining the useful life of intangible assets, property, plant and equipment is based on previous experience with similar assets, as well as on anticipated technical development and changes which are impacted by a significant number of economic or industrial factors.

The adequacy of a specified useful life is reviewed at an annual level or whenever there are indications that a significant change occurred in the factors that provide the basis for determining useful life.

4 KEY ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

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

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

If there are any indications of impairment of any asset, the recoverable amount of such asset is estimated in order to determine the amount of impairment. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

Impairment testing requires of management subjective judgment in respect of cash flows, growth rates and discount rates for cash generating units, which are the subject of review.

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

Deferred tax assets

Deferred tax assets are recognized for all unused tax credits to the extent that it is probable that expected future taxable profit will be available against which the unused tax losses can be utilized.

Significant assessment by the Company's management is necessary in order to determine the amount of deferred taxable assets that can be recognized, based on the period of origin and the amount of future taxable profits and the strategy of tax policy planning (Note 14 (c)).

Retirement benefits when retiring

Costs of employee benefits after employment termination or retirement, after statutory requirements have been met, are calculated by applying actuarial estimates. The actuarial valuation includes an assessment of the discount rate, future movements in salaries, mortality rates and fluctuation of employees.

Due to the long-term nature of these plans, significant uncertainties affect the outcome of estimation. Further information is disclosed in Note 24.

Provisions for court cases

The Company is involved in a number of court cases arising from daily operations which relate to commercial and contractual issues, and which are resolved or considered in the regular course of doing business. The Company regularly assesses the likelihood of negative outcomes of these litigations, as well as ranges of probable and reasonable estimated losses.
Reasonable estimates include the use of judgment by management after considering information which includes notifications, settlements, assessments by the legal department, available facts, identification of potential responsible parties and their ability to contribute to a resolution, as well as previous experience.

Provision for legal proceedings is recognized when it is probable that an obligation exists for which a reliable estimation can be made of the obligation after careful analysis of the individual matter (Note 24). The required provision can change in the future due to new events or receipt of new information. Matters that are either contingent liabilities or that do not meet recognition criteria for provisioning is disclosed, unless the possibility of outflow of resources embodying economic benefits is remote.

4 KEY ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Leases

The incremental borrowing rate, which is used as the discount rate for measuring the present value of lease payments is determined by analyzing internal sources of information about borrowings and is adjusted to reflect contractual lease terms and type of leased assets.

5 INTEREST INCOME AND INTEREST EXPENSES

	2020	2019
Interest income		
Interest income from finance lease activities	431,002	422,232
Penalty interest income	1,589	9,286
Interest income on securities	26,390	26,677
Interest income	1,843	1,884
Total	**460,824**	**460,080**
Interest expenses		
Interest expense on other borrowings from abroad	(66,919)	(102,467)
Interest expense on borrowings from related parties in the country	(112,220)	(73,758)
Interest expense on rental	(202)	(272)
Total	**(179,341)**	**(176,497)**
Interest income	**281,483**	**283,583**

6 FEE AND COMMISSION INCOME AND EXPENSES

	2020	2019
Fee and commission income		
Income from delivering services – finance lease origination fees	60,585	82,631
Income from warnings	3,072	8,375
Intercalary interest income	25,668	20,595
Income from costs recharged to lessees	28,536	33,756
Other income from fees	2,174	-
Total	**120,035**	**145,357**
Fee and commission expenses		
Insurance for leased assets	(12,640)	(16,838)
Expenses from placement of leasing assets	(12,494)	(8,516)
Expenses from repossessing leased assets	(9)	(2,108)
Registration fees of lease agreements	(11,380)	(10,213)
Expenses from loan guarantees	(10,508)	(11,703)
Other expenses from finance lease activities	(5,503)	(6,113)
Total	**(52,534)**	**(55,491)**
Net fee and commission income	**67,501**	**89,866**

7 FOREIGN EXCHANGE LOSSES AND EFFECTS OF FOREIGN EXCHANGE CLAUSE

	2020	2019
Foreign exchange gains and effects of foreign currency clause		
Income from effects of foreign currency clause	20,476	42,864
Foreign exchange gains	12,476	80,281
Total	**32,952**	**123,145**
Foreign exchange losses and effects of foreign currency clause		
Expenses from effects of foreign currency clause	(21,826)	(93,577)
Foreign exchange losses	(11,907)	(30,110)
Total	**(33,733)**	**(123,687)**
Expenses, net amount	**(781)**	**(542)**

8 OTHER OPERATING INCOME

	2020	2019
Income from insurance brokerage	40,151	29,039
Other operating income	4,995	4,463
Total	**45,146**	**33,502**

9 NET (LOSSES) / GAINS ON DECREASE IN ALLOWANCE FOR IMPAIRMENT OF FINANCE LEASE RECEIVABLES AND FINANCIAL ASSETS

	2020	2019
Net (impairment)/decrease in allowance for impairment of matured long-term receivables overdue more than 60 days	4,039	6,314
Net (impairment)/decrease in allowance for impairment of long-term receivables overdue up to 60 days and future receivables from finance lease activities	(51,421)	42,832
Net (impairment)/decrease in allowance for impairment of short-term receivables overdue more than 60 days	(2,195)	(5,251)
Net decrease in allowance for impairment/(impairment) of short-term receivables overdue up to 60 days	(136)	837
Net (impairment)/decrease in allowance for impairment of other financial placements - Securities	1,326	(493)
Net (expenses)/income	**(48,387)**	**44,239**

10 NET EXPENSES/REVENUE FROM IMPAIRMENT OF ASSETS LEASED OUT, LEASED ASSETS AND ASSETS TAKEN IN EXCHANGE FOR UNCOLLECTED RECEIVABLES

	2020	2019
Impairment of repossessed leased assets	(13,048)	(13,352)
Gains on adjustments in value of repossessed leased assets	1,851	1,912
Total	**(11,197)**	**(11,440)**

Impairment assumed the leasing object refers to the apparent impairment based on the assessment of the authorized appraiser.

11 SALARIES, SALARY COMPENSATION AND OTHER PERSONNEL EXPENSES

	2020	2019
Cost of gross salaries	92,530	87,168
Expenses for accrued bonuses	8,898	9,500
Taxes and contributions	13,955	13,374
Other personnel expenses and fees	2,122	3,620
Provision for retirement benefits (Note 24)	299	157
Costs of service contracts	412	193
Total	**118,216**	**114,012**

12 DEPRECIATION/AMORTIZATION COST

	2020	2019
Amortization of intangible assets (Note 20)	7,735	6,212
Depreciation of property, plant and equipment (Note 21)	1,433	2,457
Depreciation of assets with right of use (Note 21)	6,465	6,135
Total	**15,633**	**14,804**

13 OTHER EXPENSES

	2020	2019
Maintenance services (c)	19,003	15,481
Advertising and promotion	57	696
Consulting services (a)	15,821	14,554
Rental expense	680	1,378
Bank charges	1,573	1,352
Entertainment expense	798	1,680
Youth and student association services	2,869	2,650
Fuel	1,827	2,418
Legal services	1,144	1,147
Transportation and postal service	1,603	2,174
Costs of materials	611	2,118
Professional development and literature	821	1,482
Spare parts and tools	433	421
Audit costs	3,648	3,667
Membership fees	1,443	1,412
Insurance premiums	323	552
Translation services and similar services	401	235
Taxes	1,328	1,094
Litigation expenses (d)	5,242	1,125
Provision for litigation (b)	1,267	14,081
Other services	3,055	5,324
Total	**63,947**	**75,041**

(a) The cost of consulting services in the current year is higher compared to the previous year, primarily due to the increase of expenses under the "Service Level Agreement" (SPA) contract with Banca Intesa a.d. Beograd, which in 2020 amounted to RSD 15,551 thousand (2019: RSD 13,734 thousand).

(b) The costs of provision for litigation are lower compared to previous year due to fewer litigations during 2020 which have not been finalized. These expenditures relate to passive litigation against the Company and for which the best possible estimate of expenditures is made corresponding to the amount that the Company would pay in order to resolve the dispute.

(c) In the group of costs of maintenance services, the increase in the current year refers to the increase in costs of software maintenance services, which in 2020 amount to RSD 18,817 thousand (2019: RSD 15,193 thousand).

(d) The largest impact on the increase in expenses in the group Costs of litigation during the year relates to litigations that were initiated and concluded during the business year. Expenditures related to these litigations in 2020 amount to RSD 3,994 thousand (2019: RSD 67 thousand).

14 INCOME TAX

a) Income tax components

The components of income tax expenses are:

	2020	2019
Income tax of the period	30,252	40,072
Deferred tax expense of the period	-	600
Deferred tax income of the period	(77)	-
Total tax expense of the period	**30,175**	**40,672**

(b) Reconciliation of the income tax amount in the income statement and the product of profit before tax and prescribed tax rate

Reconciliation between income tax expenses calculated at the statutory income tax rate on profit before tax and income tax expense as per the Company's effective income tax rate for the years ended 31 December 2020 and 2019 is presented below:

	2020	2019
Profit before tax	**136,854**	**235,351**
Income tax expense at statutory rate of 15%	**20,528**	**35,303**
Non-deductible expenses for tax purposes	405	2,612
Disallowed allowance for impairment of receivables	13,390	8,175
Interest income on securities issued by the Republic of Serbia - income adjustment	(3,959)	(4,002)
Losses of impairment of assets that are not recognized in the tax period	1,562	1,431
Income adjustment for previously unrecognized tax expenses	(1,674)	(3,447)
Current income tax	**30,252**	**40,072**
Deferred tax income – tax depreciation	(491)	165
Deferred tax income – IAS 19	(45)	(24)
Tax effects of first time adoption of IFRS 9	459	459
Total deferred tax expense/income	(77)	600
Income tax disclosed in the income statement	**30,175**	**40,672**
Effective tax rate	***22.05%***	***17.28%***

(c) Deferred tax assets

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

	2020	2019
Balance as at 1 January	**3,709**	**4,309**
Effects of temporary differences credited/(charged) to the Statement of profit and loss	77	(600)
Balance as at 31 December	**3,786**	**3,709**

14 INCOME TAX (continued)

The following table represents the bases for recording deferred tax income / (expense) and the effect on the Statement of profit and loss for 2020 and 2019:

	Deferred tax assets 2020	Statement of profit and loss 2020	Deferred tax assets 2019	Statement of profit and loss 2019
Temporary differences between the carrying amount of equipment and intangible assets and their tax base	2,738	491	2,247	(164)
Temporary differences arising from the first application of IFRS 9 Financial Instruments	918	(459)	1,377	(460)
Temporary differences arising from the provision under IAS 19 "Employee Benefits"	130	45	85	24
Total	**3,786**	**77**	**3,709**	**(600)**

(d) Current tax liabilities

	2020	2019
Balance as at 31 December	**(748)**	**(4,052)**

Current tax liability resulting from the difference of the calculated tax expenses for 2020 and the advance tax paid on profits in 2020.

15 CASH

	2020	2019
Current accounts in dinars	157,267	176,388
Balance as at 31 December	**157,267**	**176,388**

During 2020 and 2019 the Company performed payment and settlement transactions in domestic and foreign currency through its accounts held with Banca Intesa a.d. Beograd.

16 FINANCIAL PLACEMENTS HELD WITH BANKS

	2020	2019
Term deposit	834,819	-
Foreign currency accounts	2,351,604	-
Balance as at 31 December	**3,186,423**	**-**

As of December 31, 2020, the Company had financial placements with banks that related to the balance of funds on the foreign currency account, as well as a term deposit with Banca Intesa a.d. Beograd. As of 31 December 2019 the Company did not have financial placements with banks.

17 OTHER FINANCIAL PLACEMENTS AND DERIVATIVES

Other financial placements relate to:

	2020	2019
Government bonds of the Republic of Serbia	750,702	760,088
Financial assets - investing in investment funds	210,885	-
Balance as at 31 December	**961,587**	**760,088**

Below is a comparative overview of investments in government bonds on December 31, 2020 and 2019:

Description of financial placement	Market value 31/12/2020	Maturity of financial placements	Interest rate achieved at time of purchase
Government bonds of the Republic of Serbia	626,832	January 2022	3.73% annually
Government bonds of the Republic of Serbia	123,870	January 2023	3.74% annually
Total Securities	**750,702**		

Description of financial placement	Market value 31/12/2019	Maturity of financial placements	Interest rate achieved at time of purchase
Government bonds of the Republic of Serbia	634,176	January 2022	3.73% annually
Government bonds of the Republic of Serbia	125,912	January 2023	3.74% annually
Total Securities	**760,088**		

For financial placements, the Company made an allowance for impairment in accordance with the requirements of IFRS 9 Financial Instruments. The calculation of value adjustments during the year is recorded in the Income statement under the position Net revenue from impairment of receivables under financial leasing and financial assets.

Changes in the value adjustments of financial investments measured at fair value through other comprehensive income are given through the following overview:

	2020	2019
Balance as at 1 January	**(2,715)**	**(2,223)**
Allowance for impairment during the year - increase	-	(2,273)
Allowance for impairment during the year - decreases	1,326	1,781
Balance as at 31 December	**(1,389)**	**(2,715)**

18 RECEIVABLES FROM FINANCE LEASE ACTIVITIES

The overview of finance receivables is presented in the table below:

	2020	**2019**
Overdue finance lease receivables	261,633	256,663
Finance lease receivables with maturity up to 1 year	6,004,491	4,959,431
Finance lease receivables with maturity from 1 to 5 years	10,966,798	9,196,973
Finance lease receivables with maturity over 5 years	523,132	801,423
Total	**17,756,054**	**15,214,490**
Short-term receivables	22,647	19,094
Accrued interest income on finance lease receivables	24,072	20,063
Deferred income – finance lease origination fees	(80,216)	(68,905)
Total receivables from finance lease activities	**17,722,557**	**15,184,742**
Less:		
Allowance for impairment – overdue finance lease receivables	(199,522)	(203,347)
Allowance for impairment – Finance lease receivables with maturity up to 1 year	(47,354)	(30,134)
Allowance for impairment – Finance lease receivables with maturity from 1 up to 5 years	(83,720)	(52,465)
Allowance for impairment – Finance lease receivables with maturity over 5 years	(5,251)	(2,300)
Allowances for impairment	**(335,847)**	**(288,246)**
Allowance for impairment – Short-term receivables	(12,731)	(11,284)
Total allowances for impairment of finance lease receivables	**(348,578)**	**(299,530)**
Net receivables from finance lease activities	**17,373,979**	**14,885,212**

The Company's finance lease receivables as at 31 December 2020 amounted to RSD 17,756,054 and increased by 16.70% compared to previous year (31 December 2019: RSD 15,214,490 thousand). Short-term receivables relate to other receivables from finance lease: receivables for finance lease origination fees, recharged expenses, penalty interest, warnings and compound interest.

Accrued interest income on finance leases relates to the proportional part of interest in lease payments that mature in the following year, and refers to the period from the maturity of the previous lease payment to December 31 of the year for which the financial statements are prepared.

Deferred income from the approval of the financial leasing placement are pre-charged lease origination costs, which is a deductible item on the receivables from financial leasing, in the amount of RSD 80,216 thousand for 2020, or RSD 68,905 thousand for 2019.

The strategy for managing residual risk for rights that the Company retains as its assets includes any assets that mitigate this risk. Such assets include buy-back contracts, residual value contracts, guarantees.

18 FINANCE LEASE RECEIVABLES (continued)

During 2020, the National Bank of Serbia issued decisions on temporary measures for financial leasing providers to mitigate the consequences of the Covid-19 pandemic in order to preserve the stability of the financial system (Official Gazette of RS 33/2020, 103/2020 and 150/2020). As the mentioned bylaws resulted in changes in agreed terms of lease agreements (primarily the schedule of agreed cash flows), their modification, which in this case is not significant, does not result in derecognition of the financial asset, the Company has calculated the effect of the modification.

An overview of the number of lessees and the number of contracts which were modified on the basis of NBS Decisions is given below:

	Number of debtors	Number of contracts
Moratorium 1	1,696	4,454
Moratorium 2	1,042	2,460
Moratorium 3	28	89

The amount of receivables from financial lease lessees that accepted Moratorium 2 amounted to RSD 5,783,761 thousand. The Company has calculated a loss from modifications to agreed terms of the lease in the amount of RSD 2,495 thousand, which do not lead to derecognition of the financial asset.

Based on the assessment of the Company's management, the modification loss that did not lead to derecognition of finance lease receivables in 2019 was not material and was not recorded in the income statement.

(a) The present and future value of minimum lease payments receivables, without accrued interest income and deferred origination fees as at **31 December 2020** are presented in the table below:

	Net book value	Unearned income	Gross receivables
Up to 1 year and past due	6,266,124	369,018	6,635,142
From 1 to 5 years	10,966,798	522,356	11,489,154
Over 5 years	523,132	29,930	553,062
Total	**17,756,054**	**921,304**	**18,677,358**

The present and future value of minimum lease payments receivables, without accrued interest income and deferred origination fees as at **31 December 2019** are presented in the table below:

	Net book value	Unearned income	Gross receivables
Up to 1 year and past due	5,216,094	335,340	5,551,434
From 1 to 5 years	9,196,973	475,641	9,672,614
Over 5 years	801,423	45,530	846,953
Total	**15,214,490**	**856,511**	**16,071,001**

18 FINANCE LEASE RECEIVABLES (continued)

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

	2020	2019
Balance as at 1 January	**(299,530)**	**(348,936)**
Allowance for impairment during the year - increase	(61,978)	(10,644)
Allowance for impairment during the year - decreases	12,394	53,995
Write off of receivables - decrease	651	4,164
Foreign exchange differences - increase	(141)	(25)
Foreign exchange differences - decrease	26	1,916
Balance as at 31 December	**(348,578)**	**(299,530)**

Changes in impairment stages can be shown by the following table:

Accumulated depreciation	31 December 2019	Addition during the year	31 December 2020
Stage 1	(48,934)	(38,558)	(87,492)
Stage 2	(29,055)	(5,990)	(35,045)
Stage 3	(221,541)	(4,500)	(226,041)
Total	**(299,530)**	**(49,048)**	**(348,578)**

(c) The value of minimum lease payments receivables, without accrued interest income and deferred origination fees and without short-term receivables, and related corrections, as at 31 December 2020 and 31 December 2019, and adjustments of the value of receivables by stage impairment is shown in the following table:

	Value of receivables	Allowance for impairment of receivables	Net value of receivables
Stage 1 impairment	16,489,977	(87,449)	16,402,528
Stage 2 impairment	984,752	(34,996)	949,756
Stage 3 impairment	281,325	(213,402)	67,923
Balance as at 31 December 2020	**17,756,054**	**(335,847)**	**17,420,207**

	Value of receivables	Allowance for impairment of receivables	Net value of receivables
Stage 1 impairment	13,826,964	(48,917)	13,778,047
Stage 2 impairment	1,150,611	(29,042)	1,121,569
Stage 3 impairment	236,915	(210,287)	26,628
Balance as at 31 December 2019	**15,214,490**	**(288,246)**	**14,926,244**

18 FINANCE LEASE RECEIVABLES (continued)

ECL movements in 2020	Stage 1	Stage 2	Stage 3	Total
Opening balance - 01/01/2020	**48,934**	**29,055**	**221,541**	**299,530**
Transfer to Stage 1	-	(12,296)	-	(12,296)
Transfer to Stage 2	(3,960)	-	-	(3,960)
Transfer to Stage 3	(297)	(2,471)	-	(2,768)
ECL movements due to change in measurement	13,782	22,088	8,407	44,277
New production	43,431	8,050	1,235	52,716
Collection	(14,398)	(9,381)	(4,448)	(28,227)
Write-offs	-	-	(695)	(695)
Balance as at 31/12/2020	**87,492**	**35,045**	**226,040**	**348,577**

(d) In 2020 finance lease agreements were concluded for periods of up to 10 years. Economic benefits and risks are transferred to the lessee pursuant to the finance lease agreements. In accordance with the agreements, ownership is transferred to the lessee upon repayment of all the contracted instalments. In 2020, average lease origination fee amounted to 0.50% of the gross cost of the leased asset (2019: 0.52%).

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

Nominal interest rates on finance lease agreements approved in 2020 vary in the following ranges:

Placements	From	To
Finance lease receivables in EUR	0.99%	5.49%
Finance lease receivables in RSD	2.99%	7.99%

The average rate of the clients' participation in accordance with the lease agreements in 2020 amounted to 20.69% of the net cost of the leased asset (2019: 15.01%).

19 REPOSSESSED LEASED ASSETS AND INVENTORIES

	2020	2019
Other assets acquired in exchange for unpaid receivables	597	597
Advances paid - other	247	309
Advances paid – supply of finance lease assets	13,262	5,920
Finance lease assets repossessed in exchange for uncollectible receivables	16,069	21,967
Balance as at 31 December	**30,175**	**28,793**

19 REPOSSESSED LEASED ASSETS AND INVENTORIES (continued)

As at 31 December 2019 finance lease assets repossessed in exchange for uncollectible receivables amounting RSD 16,069 thousand (31 December 2019: RSD 21,967 thousand) are intended to be reactivated through finance lease agreements or for further reselling. The decrease in inventory of repossessed lease assets relates above all to assets repossessed from one client, resulting from the impairment of lease assets based on valuation performed by a certified appraiser at the end of 2019 based on which impairment was recognized in the amount of RSD 6,256 thousand.

Advances for the purchase of lease assets in the amount of RSD 13,262 thousand as of December 31, 2020 relate to one financial leasing agreement whose activation is planned in 2020 (as of December 31, 2019 the amount of RSD 5,920 thousand related to six finance lease contracts).

20 INTANGIBLE ASSETS

	License and software	Intangible assets under development	Total
COST			
Balance as at 1 January 2019	**45,703**	**1,521**	**47,224**
Additions during the year - new acquisitions	6,010	2,830	8,840
Transfer (from)/to	3,180	(3,180)	-
Disposal	-	-	-
Balance as at 31 December 2019	**54,893**	**1,171**	**56,064**
Additions during the year - new acquisitions	6,060	1,880	7,940
Transfer (from)/to	1,463	(1,463)	-
Balance as at 31 December 2020	**62,416**	**1,588**	**64,004**
ACCUMULATED AMORTIZATION			
Balance as at 1 January 2019	**28,267**	**-**	**28,267**
Amortization (Note 12)	6,212	-	6,212
Balance as at 31 December 2019	**34,479**	**-**	**34,479**
Amortization (Note 12)	7,735	-	7,735
Balance as at 31 December 2020	**42,214**	**-**	**42,214**
Net book value as of:			
- 31 December 2020	**20,202**	**1,588**	**21,790**
- 31 December 2019	**20,414**	**1,171**	**21,585**

In 2020 the upgrade of the information system “Nova” was continued with upgrades of existing modules as well as investments in intangible assets under construction for four new processes.

Based on the Company’s management estimates, as at 31 December 2020 there are no indications that intangible assets are impaired.

21 PROPERTY, PLANT AND EQUIPMENT

	Vehicles	Vehicles on lease*	Real-estate on lease	Other equipment	Total
COST					
Balance as at 1 January 2019	**16,105**	**-**	**-**	**3,189**	**19,294**
Additions during the year – new purchases	-	9,912	12,571	896	23,379
Additions during the year – equipment under const.	-	-	-	-	-
Disposal	(6,842)	-	-	(528)	(7,370)
Balance as at 31 December 2019	**9,263**	**9,912**	**12,571**	**3,557**	**35,303**
Additions during the year – new purchases	-	-	-	651	651
Additions during the year – equipment under const.	-	-	-	-	-
Disposal	-	-	-	(146)	(146)
Balance as at 31 December 2020	**9,263**	**9,912**	**12,571**	**4,062**	**35,808**
ACCUMULATED DEPRECIATION					
Balance as at 1 January 2019	**13,338**	**-**	**-**	**1,647**	**14,985**
Amortization (Note 12)	1,946	1,652	4,483	511	8,592
Disposal	(6,842)	-	-	(528)	(7,370)
Balance as at 31 December 2019	**8,442**	**1,652**	**4,483**	**1,630**	**16,207**
Amortization (Note 12)	821	1,982	4,483	612	7,898
Disposal	-	-	-	(146)	(146)
Balance as at 31 December 2020	**9,263**	**3,634**	**8,966**	**2,096**	**23,959**
Net book value as of:					
- 31 December 2020	**-**	**6,278**	**3,605**	**1,966**	**11,849**
- 31 December 2019	**821**	**8,260**	**8,088**	**1,927**	**19,096**

** The Vehicles on lease and Real-estate on lease columns present amounts recorded at first time adoption of IFRS 16 Leases.*

The Company has no restrictions on ownership of equipment as of 31 December 2020, nor has any item of equipment been pledged as a collateral.

Based on the Company's management estimates, as at 31 December 2020 there are no indications that the value of the equipment is impaired.

Application of IFRS 16 Leasing

Right-of-use assets, commercial premises and vehicles, in 2020:

	Real-estate on lease	Passenger vehicles on lease	Total
Balance as at 1 January 2020	**8,088**	**8,260**	**16,348**
Increases during the year	-	-	-
Depreciation during the year	(4,483)	(1,982)	(6,465)
Balance as at 31 December 2020	**3,605**	**6,278**	**9,883**

21 PROPERTY, PLANT AND EQUIPMENT (continued)

Amounts reported in profit and loss that relate to leases according to IFRS 16 can be presented in the following overview:

	Real-estate on lease	Passenger vehicles on lease	Total
Interest expense	158	115	273
Depreciation expense	4,483	1,652	6,135
Total	**4,641**	**1,767**	**6,408**

The amount presented in the Cash flow statement under Cash payment for financial activities can be presented in the following overview:

Payments for lease of real-estate	4,557
Payments for lease of passenger vehicles	2,327
Total	**6,884**

22 OTHER ASSETS

	2020	2019
Interest receivable on deposits	60	199
Receivables for recharged expenses (Note 30(b))	482	779
Receivables for unconfirmed changes in tax base	1,261	230
Other prepayments and deferred expenses	3,367	2,671
Prepaid expenses	20,611	16,755
Receivables on sale of leased assets	43,777	7,722
Other receivables	8,015	31,058
Balance as at 31 December	**77,573**	**59,414**

Change in prepaid expenses in 2020 was due to the increase in mediation fees in placements paid during the year and the expense is posted using the diminishing balance method during the term of the financial leasing contract for which they were incurred. The amount of this group of accrued expenses as at 31 December 2020 amounted to RSD 18,820 thousand, while the balance as at 31 December 2019 amounted to RSD 15,538 thousand.

Receivables on sale of leased assets relate to 55 items sold with deferred lease deals that were negotiated with the buyers of these items. These receivables are payable until 30/6/2022 (as of December 31, 2019, receivables related to the sale of 8 lease assets).

Other receivables as of December 31, 2020, primarily relate to insurance agency services for lease assets with insurance companies in the amount of RSD 4,894 thousand (receivables for insurance agency services as of December 31, 2019, amount to RSD 4,441 thousand). Besides the above stated, other receivables as at 31 December 2019 primarily related to VAT receivables in the amount of RSD 26.130 thousand.

23 BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, OTHER FINANCIAL LIABILITIES AND DERIVATIVES

A) Financial liabilities for borrowed funds from banks and other financial institutions

Overviews of financial liabilities for funds borrowed from banks and other financial institutions are given below:

	2020	2019
Short-term borrowings in the country	-	587,964
Interest payable on borrowings in the country	10,258	6,350
Portion of long-term borrowings with maturity up to 1 year in the country	2,567,227	1,199,603
Portion of long-term borrowings with maturity up to 1 year from abroad	2,356,684	2,143,969
Portion of long-term borrowings with maturity from 1 to 5 years in the country	7,818,062	4,149,043
Portion of long-term borrowings with maturity over 5 years in the country	-	55,997
Portion of long-term borrowings with maturity from 1 to 5 years from abroad	7,394,458	5,701,656
Portion of long-term borrowings with maturity over 5 years from abroad	194,786	717,663
Total liabilities	**20,341,475**	**14,562,245**
Accrued interest and guarantees expenses on long-term borrowings	19,297	21,170
Deferred disbursement fees on borrowings in the country	(21,312)	(10,946)
Deferred disbursement fees on borrowings from abroad	(21,387)	(19,063)
Balance as at 31 December	**20,318,073**	**14,553,406**

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

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

As at 31 December 2020 the Company had the following approved and unused borrowings and a part of a long-term borrowing in the amount of EUR 3.50 million approved by Banca Intesa a.d. Beograd and a borrowing of EUR 40 million concluded with the European Investment Bank.

The interest rate on long-term borrowings from abroad ranges from 0.05% up to 2.905% per annum, depending on the maturity period and the time of their negotiation.

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

As at December 31, 2020, the Company did not have covenants above the limit under contracts with creditors where it was defined.

23 BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, OTHER FINANCIAL LIABILITIES AND DERIVATIVES (Continued)

Finance liabilities by creditors

The following table presents changes in the balance of loan liabilities:

Creditor	Balance as at 1 January 2020	Drawdowns during the year	Repayments during the year	Other drawdowns / decreases during the year	Balance as at 31 December 2020
Banca Intesa a.d. Beograd	5,998,957	6,082,818	(1,689,776)	3,549	10,395,548
Council of Europe Development Bank	97,994	-	(97,997)	3	-
European Investment Bank	3,266,467	-	(459,160)	(413)	2,806,894
GGF Southeast Europe B.V.	106,421	-	(106,407)	(14)	-
KfW Entwicklungsbank	1,567,982	-	(391,761)	(184)	1,176,037
Banka Intesa Sanpaolo d.d.	-	2,351,604	-	-	2,351,604
European Bank for Reconstruction and Development	3,524,424	1,175,966	(1,088,195)	(803)	3,611,392
Total	**14,562,245**	**9,610,388**	**(3,833,296)**	**2,138**	**20,341,475**

B) Other financial liabilities and derivatives

We provide an overview of the remaining financial liabilities and derivatives below

	Lease liabilities for commercial premises	Lease liabilities for passenger vehicles	Total
Balance as at 1 January 2019	**12,571**	**-**	**12,571**
Increases during the year	-	9,872	9,872
Decreases – payments during the year	(4,465)	(1,596)	(6,061)
Balance as at 31 December 2019	**8,106**	**8,276**	**16,382**
Increases during the year	-	-	-
Decreases – payments during the year	(4,467)	(1,940)	(6,407)
Balance as at 31 December 2020	**3,639**	**6,336**	**9,975**

Minimum future payments for operating lease liabilities based on lease contracts are presented below:

	Present value	Undiscounted contractual cash flows
Up to 1 year	5,607	5,718
From 1 to 5 years	4,368	4,783
Total as at 31 December 2020	**9,975**	**10,501**

24 PROVISIONS

The provision for employees' retirement benefits have been recorded on the basis of the Report of an independent actuary as at 31 December 2020 and 31 December 2019 in the amount of discounted present value of future payments. When determining the present value of the expected outflows, the discount rate of 3% has been used. The provision was determined on the basis of the Rules of Procedure of the Company and the assumption of average growth of salaries in Serbia in the last 6 years by 4.5% a year and annual employee turnover of 7%.

Structure of provisions is shown in the following table:

	2020	2019
Long-term provisions for retirement benefits	865	567
Provisions for court cases	11,656	18,219
Balance as at 31 December	**12,521**	**18,786**

Movements in provisions during the year were as follows:

	2020	2019
Balance as at 1 January	**18,786**	**5,282**
Long-term provisions for retirement benefits (Note 11)	299	157
Provisions for court cases (Note 13)	(6,564)	13,347
Balance as at 31 December	**12,521**	**18,786**

The assessment of the risk of loss in connection with litigation and the provision for contingent liabilities relate to the amount of RSD 11,656 thousand (2019: RSD 18,219 thousand) related to seven passive litigation proceedings initiated against the Company (as of December 31, 2019, thirteen passive litigations proceedings were ongoing).

Litigations in which the Company was a respondent involved unreconciled EURIBOR.

25 OTHER LIABILITIES

	2020	2019
Trade payables	26,337	20,907
Payables to customers	40,223	31,725
Liabilities for unused vacations	3,297	3,626
Other deferrals	7,292	6,804
Tax payable	93	79
Value added tax payable	10,576	-
Liabilities for salaries and salary compensation	8,988	9,563
Other liabilities	1,773	1,284
Balance as at 31 December	**98,579**	**73,988**

Other payables to customers in the amount of RSD 40,223 thousand as of December 31, 2020 (December 31, 2019: RSD 31,725 thousand) mostly relate to prepaid lease instalments by customers in the amount of RSD 37,138 thousand (2019: RSD 30,006 thousand).

26 STAKE CAPITAL

The Company's stake capital structure by stakeholders' contribution as at 31 December 2020 and 2019 is presented in the table below:

	2020	2019
Banca Intesa a.d. Beograd	960,374	960,374
Balance as at 31 December	**960,374**	**960,374**

As at 31 December 2020 Banca Intesa Beograd a.d. Beograd is the sole owner of the Company with 100% share in the Company's stake (initial) capital.

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

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

The pecuniary portion of the initial capital of the Company as at 31 December 2020 satisfies the minimal required amount prescribed by Article 10a of the Law on Financial Leasing ("RS Official Gazette". no. 55/2003, 61/2005, 31/2011 and 99/2011).

27 RESERVES, REVALUATION RESERVES AND UNREALIZED GAINS

The structure of the Company's reserves as at 31 December 2020 and 2019 is as follows:

	2020	2019
Unrealized gains on the market value of securities	19,433	29,250
Other reserves – transferred gains	298,047	103,368
Balance as at 31 December	**317,480**	**132,618**

Unrealized gain in 2020 is the result of the valuation of securities (Note 17) to the market value at the reporting date in the amount of RSD 18,045 thousand (December 31, 2019: RSD 26,535 thousand), as well as the calculation of the expected credit loss in accordance with requirements of IFRS 9 Financial Instruments for securities held as at 31 December 2020 in the amount of RSD 1,388 thousand (31 December 2019: RSD 2,715 thousand).

Other reserves relate to previous year's profits transferred based on the decision by the Company's managing bodies (Note 32).

28 PROFIT

Total undistributed profit of the Company as at 31 December 2020 amounted to RSD 106,679 thousand (31 December 2019: RSD 194,679 thousand) and consist of the profit for the current year.

29 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Court cases

As at 31 December 2020, seven passive legal disputes were conducted against the Company. The total value of these court disputes is RSD 4,969 thousand (December 31, 2019: RSD 8,220 thousand) and, according to the management's assessment, the Company is expected to lose these disputes for which it formed provisions for potential losses on this basis (Note 27).

(b) Tax risks

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

30 RELATED PARTY TRANSACTIONS

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

Received guarantees from related parties have been recorded within the off-balance sheet items as follows:

	2020	2019
Guarantees Intesa Sanpaolo S.p.A. Milano	6,418,521	8,456,867
Guarantees Banca Intesa a.d. Beograd	1,874,683	-
Balance as at 31 December	**8,293,204**	**8,456,867**

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

Outstanding balances of receivables and liabilities as at 31 December 2020 and 2019 resulting from transactions with Banca Intesa a.d. Beograd, as well as income and expenses earned/incurred during the year are presented as follows:

Receivables from Banca Intesa a.d. Beograd	2020	2019
Cash (Note 15)	157,267	176,388
Financial placements held with banks (Note 16)	3,186,423	-
Receivables from finance lease activities	1,988	7,049
Interest receivable for transactional deposits	60	198
Balance as at 31 December	**3,345,738**	**183,635**

30 RELATED PARTY TRANSACTIONS (continued)

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

Liabilities to Banca Intesa a.d. Beograd	2020	2019
Long-term financial liabilities (Note 23)	7,818,062	4,205,040
Short-term financial liabilities (Note 23)	2,567,227	1,787,570
Interest payables (Note 23)	10,258	6,350
Deferred disbursement fees on approval of borrowings in the country (Note 23)	(21,312)	(10,946)
Other liabilities	19,119	17,445
Balance as at 31 December	**10,393,354**	**6,005,459**

Income from Transactions with Banca Intesa a.d. Beograd	2020	2019
Interest income on deposits (Note 5)	1,843	1,884
Interest income from finance lease activities	123	227
Fee and commission income	19	32
Net income from exchange rate differentials and currency clause effects	2,107	2,729
Total	**4,092**	**4,872**

Expenses from Transactions with Banca Intesa a.d. Beograd	2020	2019
Interest expenses (Note 5)	104,481	63,818
Fee and commission expenses	7,739	9,952
Expenses on SLA contract (Note 13(a))	15,551	13,734
Other expenses	5,689	3,222
Total	**133,460**	**90,726**

In the structure of other expenses with the related party Banca Intesa a.d. Belgrade the largest share is held by commission expenses in acting as agent for finance lease placements and as at 31 December 2020 they were RSD 2,611 thousand (as at 31 December 2019, RSD 813 thousand).

30 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with Other Related Parties

As at 31 December 2020 and 2019 the Company had the following liabilities and receivables toward the members of Intesa Sanpaolo Group - Intesa Sanpaolo S.p.A. Milano as well as expenses incurred during the year:

Receivables from members of Intesa Sanpaolo Group	2020	2019
Intesa Invest a.d. Beograd: Financial assets - investment units	210,885	-
Intesa Sanpaolo S.p.A. Milano: Other assets	482	779
Balance as at 31 December	**211,367**	**779**

Liabilities to Intesa Sanpaolo S.p.A. Milano	2020	2019
Liabilities for accrued costs of guarantees	10,211	8,370
Balance as at 31 December	**10,211**	**8,370**

Liabilities to Banka Intesa Sanpaolo d.d. Kopar	2020	2019
Long-term financial liabilities (Note 23)	1,881,283	-
Short-term financial liabilities (Note 23)	470,321	-
Other liabilities	3,527	-
Balance as at 31 December	**2,355,131**	**-**

Expenses from Transactions with the Members of Intesa Sanpaolo Group	2020	2019
Fee and commission expenses	9,414	11,703
Total	**9,414**	**11,703**

Fee and commission expense in 2020 relate to the cost of guarantees issued by the related party Intesa Sanpaolo S.p.A. Milano.

(c) Salaries of the Key Management Personnel

During the 2020 and 2019 salaries in the following amounts were paid to the Company's management:

	2020	2019
Total gross salaries	28,116	28,130
Total net salaries	20,734	21,032

No remunerations were paid to the members of the Board of Directors in 2020 and 2019.

31 RISK MANAGEMENT

Risk is an inherent part of a financial institution's activities and cannot be eliminated completely. However, the Company should manage risks in order to reduce them to an acceptable level for all interested parties: owners of the Company, the lessor, the lessees and regulators.

Risk management is the process of permanent identification, assessment, measurement, monitoring and controlling of the Company's exposure to risks. An important part of risk management is reporting and mitigating risk. An adequate system of risk management is an important element in ensuring the Company's stability and profitability.

Owing to the nature of its activities, the Company is exposed to the following major risks:
- credit risk;
- liquidity risk;
- market risk (interest rate risk, foreign currency risk and other market risks), and
- operational risk.

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

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

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

In addition to the Decision on Adoption of Limits Defining the Company's Risk Appetite (RAF limits), as a framework document governing risk management, with a view to implementing a special and uniform risk management system and ensuring functional and organizational separation of risk management activities from regular business activities, the Risk Management Department and Credit Management Department of Banca Intesa a.d. Beograd were included in implementing risk management.

The Company signed a Risk Participation Guarantees with Banca Intesa a.d. Beograd for three clients which cover the Concentration limit per individual client or group of related parties.

The risk management process in the Company is formalized through a set of procedures that comply with the rules of the Intesa SanPaolo Group and updated at least once every two years.

Risk management procedures are as follows:
- Procedure for managing risk exposure;
- Procedure for managing liquidity risk;
- Procedure for managing interest rate risk;
- Procedure for managing operational risk;
- Procedure for managing compliance risk;
- Procedure for managing foreign exchange risk;
- Policy for managing credit risk;
- Policy for managing socio-ecologic risk; and
- Policy for managing information system.

31 RISK MANAGEMENT (continued)

Organizational units in charge of risk management of both the Company and Banca Intesa a.d. Beograd continuously monitor changes in legislation, analyze their influence on risks at entity level of the Company and take necessary measures to bring the Company's business activities and procedures in accordance with new regulations within the scope of controlled risk.

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

31.1 Credit risk

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

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

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

Credit risk management is carried out at the following levels:

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

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

- The Company obtains all the necessary documentation from clients for the credit worthiness analysis.
- If the decision making level is greater that the internal limit, the collected documentation is sent to the Department for Credit Management of Banca Intesa a.d. Beograd for further analysis of creditworthiness, repayment history and value of collateral.
- The Department for Credit Management of Banca Intesa a.d. Beograd makes a proposal of the decision for placement approval.
- The Company's Credit Committee, constituted of the Chairman and members of the Executive Board, makes the decision on placement approval based on the abovementioned proposal of the Department for Credit Analysis.

The credit process in the Company is regulated by the Credit Risk Management Procedure, starting as of December 3, 2019, as follows:

Internal approval of applications (at the Company level) depending on client segment, rating and exposure, with a maximum:

- up to 500,000 EUR of total exposure to individual client/group of related parties for SME and Large Enterprise client segments; and
- up to 300,000 EUR of total exposure to individual client/group of related parties for the SB client segment, with observance of clearly defined criteria.

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

The credit process in the Company consists of:

A) A decentralized credit process for internal approval of client applications for new and used vehicles, commercial vehicles and equipment A and B categories that are marketable up to 250,000 EUR of total exposure to individual client/group of related parties, with observance of the acceptable criteria matrix and transaction criteria matrix.

As a sub-process to the decentralized process, there is:

AA) The automated credit process for approving applications for new passenger vehicles up to 50,000 EUR, used passenger vehicles and commercial vehicles up to 20,000 EUR and new commercial vehicles up to 100,000 EUR, up to total exposure of 100,000 EUR, with observance of the acceptable criteria matrix and transaction criteria matrix.

B) Accelerated credit process for approval of new and used passenger, commercial vehicles and equipment A and B categories of marketability, with observance of the acceptable criteria matrix and transaction and financial criteria, all up to max. 500,000 EUR of total exposure to individual client/group of related parties for SME and Large Enterprise client segments, and up to max. 300,000 EUR of total exposure to individual client/group of related parties for the SB client segment.

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

Furthermore, the Company manages credit risk through assessment and analysis of received collaterals, as well as by determining the adequate price of placement which covers the risk of a particular placement.

Total risk exposure to a single customer or a group of related parties regarding exposure limits, is considered thoroughly and analyzed before executing a 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 or economic groups.

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

Given the substance of the finance lease business, the basic security instrument is the lease asset itself. Standard collaterals provided by customers, except for the lease assets, are bills of exchange.

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

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

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

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

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

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

In 2020, the committee for managing non-performing placements was giving recommendations for finding the best possible solutions for dealing with bad and non-performing receivables.

Total credit risk exposure of the Company to be represented by the following table:

	2020	2019
Cash	157,267	176,388
Financial placements held with banks	3,186,423	-
Other financial placements and derivatives	961,587	760,088
Receivables from finance lease activities	17,373,979	14,885,212
Other assets - receivables from the sale of leased objects	43,778	7,722
Maximum Exposure to Credit Risk	**21,723,034**	**15,829,410**

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

(a) Portfolio Quality

The following table presents **the quality of the gross portfolio, i.e. receivables from finance lease activities** excluding short-term receivables, accrued interest income and deferred origination fees (Note 18) by types of placement, based on the Company's internal classification system, and allowances for impairment of finance lease receivables as at **31 December 2020:**

	Performing	Past Due	Unlikely to pay	Doubtful	Total 31 December 2020
Receivables from Banca Intesa a.d. Beograd	**1,988**	**-**	**-**	**-**	**1,988**
Receivables from Customers					
Corporate Customers	1,166,379	-	-	-	1,166,379
Medium enterprises	4,586,182	-	6,122	-	4,592,304
Small enterprises	7,125,879	2,652	2,615	43,469	7,174,614
Micro enterprises	3,155,676	9,385	16,278	103,716	3,285,055
Entrepreneurs	1,105,775	3,481	1,185	19,304	1,129,745
Retail Customers	225,027	862	1,291	6,681	233,862
Farmers	69,227	-	-	64,285	133,513
Other clients	38,594	-	-	-	38,594
Total	**17,474,729**	**16,380**	**27,491**	**237,455**	**17,756,054**
Participation in the total gross receivables	**98.42%**	**0.09%**	**0.15%**	**1.34%**	**100.00%**
Impairment provision Banca Intesa a.d. Beograd	**1**	**-**	**-**	**-**	**1**
Receivables from Customers					
Corporate Customers	4,167	-	-	-	4,167
Medium enterprises	15,625	-	1,151	-	16,776
Small enterprises	44,088	448	441	36,232	81,209
Micro enterprises	33,026	1,681	2,732	90,741	128,179
Entrepreneurs	15,255	668	227	8,707	24,856
Retail Customers	5,658	159	221	6,681	12,720
Farmers	4,402	-	-	63,314	67,716
Other clients	223	-	-	-	223
Total	**122,445**	**2,956**	**4,773**	**205,673**	**335,847**
Participation in the total impairment provision	**36.46%**	**0.88%**	**1.42%**	**61.24%**	**100.00%**

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

(a) Portfolio Quality (continued)

The following table presents **the quality of the gross portfolio, i.e. receivables from finance lease activities** excluding short-term receivables, accrued interest income and deferred origination fees by types of placement, based on the Company's internal classification system, and allowances for impairment of finance lease receivables as at **31 December 2019:**

	Performing	Past Due	Unlikely to pay	Doubtful	Total 31 December 2019
Receivables from Banca Intesa a.d. Beograd	**7,049**	**-**	**-**	**-**	**7,049**
Receivables from Customers					
Corporate Customers	1,373,175	-	-	-	1,373,175
Medium enterprises	3,423,301	-	-	-	3,423,301
Small enterprises	6,173,094	1,990	2,048	36,992	6,214,124
Micro enterprises	2,973,787	3,035	4,018	102,608	3,083,448
Entrepreneurs	708,847	1,772	2,482	9,920	723,021
Retail Customers	168,064	-	803	6,797	175,664
Farmers	120,326	-	1,359	63,091	184,776
Other clients	29,932	-	-	-	29,932
Total	**14,977,575**	**6,797**	**10,710**	**219,408**	**15,214,490**
Participation in the total gross receivables	**98.44%**	**0.04%**	**0.07%**	**1.44%**	**100.00%**
Impairment provision Banca Intesa a.d. Beograd	**1**	**-**	**-**	**-**	**1**
Receivables from Customers					
Corporate Customers	2,342	-	-	-	2,342
Medium enterprises	10,281	-	-	-	10,281
Small enterprises	21,522	597	408	35,862	58,389
Micro enterprises	20,836	612	897	93,776	116,121
Entrepreneurs	11,443	355	533	7,069	19,400
Retail Customers	5,435	-	174	6,639	12,248
Farmers	6,000	-	330	63,035	69,365
Other clients	99	-	-	-	99
Total	**77,959**	**1,564**	**2,342**	**206,381**	**288,246**
Participation in the total impairment provision	**27.05%**	**0.54%**	**0.81%**	**71.60%**	**100.00%**

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

(a) Portfolio Quality (continued)

Below is an overview of gross placements based on internal ratings:

Internal rating 2020	Gross placements	Share of gross placements in total placements	Impairment	Share of impairment in total impairments
Inter Company	1,988	0.01%	1	0.00%
A1	342,640	1.93%	145	0.04%
A2	1,993,863	11.23%	1,095	0.33%
A3	2,408,659	13.57%	3,384	1.01%
B1	2,164,789	12.19%	4,186	1.25%
B2	3,282,409	18.49%	11,426	3.40%
B3	2,681,765	15.10%	15,405	4.59%
B4	1,559,983	8.79%	20,433	6.08%
C1	918,718	5.17%	12,539	3.73%
C2	247,630	1.39%	9,980	2.97%
C3	352,718	1.99%	25,371	7.55%
D	281,325	1.58%	213,402	63.54%
S13	65,016	0.37%	462	0.14%
STRONG	248,095	1.40%	583	0.17%
Unrated	1,206,455	6.79%	17,438	5.19%
Total 31/12/2020	**17,756,054**	**100.00%**	**335,847**	**100.00%**

Internal rating 2019	Gross placements	Share of gross placements in total placements	Impairment	Share of impairment in total impairments
Inter Company	7,049	0.05%	1	0.00%
A1	294,576	1.94%	42	0.01%
A2	2,323,267	15.27%	1,914	0.66%
A3	1,938,276	12.74%	1,303	0.45%
B1	2,401,407	15.78%	2,803	0.97%
B2	2,034,988	13.38%	3,803	1.32%
B3	1,680,444	11.05%	6,671	2.31%
B4	1,870,013	12.29%	11,094	3.85%
C1	819,214	5.38%	10,244	3.55%
C2	333,835	2.19%	9,134	3.17%
C3	187,843	1.23%	16,207	5.62%
D	236,915	1.56%	210,287	72.95%
S13	79,278	0.52%	278	0.10%
STRONG	351,416	2.31%	676	0.23%
Unrated	655,969	4.31%	13,789	4.78%
Total 31/12/2019	**15,214,490**	**100.00%**	**288,246**	**100.00%**

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

(a) Portfolio Quality (continued)

The following tables present **the quality of the portfolio of net placements, i.e. receivables from finance lease activities**, excluding short-term receivables, accrued interest income and deferred origination fees by types of placement, based on the Company's internal classification system, as at 31 December 2020 and 2019:

	Performing	Past Due	Unlikely to pay	Doubtful	Total 31 December 2020
Receivables from Banca Intesa a.d. Beograd	**1,988**	**-**	**-**	**-**	**1,988**
Receivables from Customers					
Corporate Customers	1,162,212	-	-	-	1,162,212
Medium enterprises	4,570,557	-	4,970	-	4,575,528
Small enterprises	7,081,791	2,203	2,174	7,237	7,093,405
Micro enterprises	3,122,650	7,704	13,546	12,975	3,156,876
Entrepreneurs	1,090,520	2,813	958	10,597	1,104,888
Retail Customers	219,369	703	1,070	-	221,142
Farmers	64,825	-	-	972	65,797
Other Institutions	38,371	-	-	-	38,371
Total	**17,352,284**	**13,424**	**22,718**	**31,782**	**17,420,207**
Participation in the total net receivables	**99.61%**	**0.08%**	**0.13%**	**0.18%**	**100.00%**

	Performing	Past Due	Unlikely to pay	Doubtful	Total 31 December 2019
Receivables from Banca Intesa a.d. Beograd	**7,048**	**-**	**-**	**-**	**7,048**
Receivables from Customers					
Corporate Customers	1,370,833	-	-	-	1,370,833
Medium enterprises	3,413,020	-	-	-	3,413,020
Small enterprises	6,151,572	1,393	1,640	1,130	6,155,735
Micro enterprises	2,952,951	2,423	3,121	8,832	2,967,327
Entrepreneurs	697,404	1,417	1,949	2,851	703,621
Retail Customers	162,629	-	629	158	163,416
Farmers	114,326	-	1,029	56	115,411
Other Institutions	29,833	-	-	-	29,833
Total	**14,899,616**	**5,233**	**8,368**	**13,027**	**14,926,244**
Participation in the total net receivables	**99.82%**	**0.04%**	**0.06%**	**0.09%**	**100.00%**

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

(a) Portfolio Quality (continued)

Aging Structure of Overdue Receivables of Performing Receivables

The aging analysis of overdue receivables from performing customers as at 31 December 2020 is presented in the table below:

	To 30 days	Overdue 31 to 60 days	Overdue 61 to 90 days	Over 90 days	Total 31 December 2020
Receivables from Banca Intesa a.d. Beograd	-	-	-	-	-
Receivables from Customers					
Corporate Customers	3,571	-	-	-	3,571
Medium enterprises	7,762	157	-	-	7,919
Small enterprises	22,090	381	233	-	22,704
Micro enterprises	14,191	580	1,487	4	16,265
Entrepreneurs	5,103	144	48	-	5,295
Retail Customers	815	8	-	-	823
Farmers	1,230	-	-	-	1,230
Other Institutions	1	-	-	-	1
Total	**54,763**	**1,270**	**1,768**	**4**	**57,805**
Participation in total overdue receivables of high and standard quality	**94.74%**	**2.20%**	**3.06%**	**0.00%**	**100.00%**

The aging analysis of overdue receivables from performing customers as at 31 December 2019 is presented in the table below:

	To 30 days	Overdue 31 to 60 days	Overdue 61 to 90 days	Over 90 days	Total 31 December 2019
Receivables from Banca Intesa a.d. Beograd	-	-	-	-	-
Receivables from Customers					
Corporate Customers	6,155	99	-	-	6,254
Medium enterprises	7,088	154	-	-	7,242
Small enterprises	17,609	941	793	-	19,343
Micro enterprises	9,299	1,201	536	-	11,036
Entrepreneurs	2,789	18	-	-	2,807
Retail Customers	839	47	-	-	886
Farmers	1,549	63	-	-	1,612
Other Institutions	-	-	-	-	-
Total	**45,328**	**2,523**	**1,329**	**-**	**49,180**
Participation in total overdue receivables of high and standard quality	**92.17%**	**5.13%**	**2.70%**	**0.00%**	**100.00%**

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

(b) Maximum Exposure to Credit Risk

The structure of the Company's maximum exposure to credit risk, expressed in **the gross portfolio, i.e. receivables from finance lease activities** excluding short-term receivables, accrued interest income and deferred origination fees (Note 18) as at **31 December 2020**, by geographical areas, is given in the following table:

Geographical region	Receivables from Customers	Allowance for impairment	Net 31/12/2020	% Participation in net receivables
Vojvodina	6,334,275	(101,720)	6,232,555	35.78%
Belgrade	8,174,109	(126,550)	8,047,559	46.20%
South and East Serbia	791,792	(45,174)	746,618	4.29%
Sumadija and West Serbia	2,455,878	(62,403)	2,393,475	13.73%
Total	**17,756,054**	**(335,847)**	**17,420,207**	**100.00%**

The structure of the Company's maximum exposure to credit risk, expressed in **the gross portfolio, i.e. receivables from finance lease activities** excluding short-term receivables, accrued interest income and deferred origination fees (Note 18) as at **31 December 2019**, by geographical areas, is given in the following table:

Geographical region	Receivables from Customers	Allowance for impairment	Net 31/12/2019	% Participation in net receivables
Vojvodina	5,174,938	(87,057)	5,087,881	34.09%
Belgrade	7,007,514	(102,562)	6,904,953	46.26%
South and East Serbia	683,433	(48,571)	634,861	4.25%
Sumadija and West Serbia	2,348,605	(50,056)	2,298,549	15.40%
Total	**15,214,490**	**(288,246)**	**14,926,244**	**100.00%**

Analysis of the Company's exposure to credit risk **by sector and type of leased assets** is stated at the value of gross placements, respectively, or receivables based on financial leasing excluding other receivables from finance leases activities, advance of accrued interest income and deferred origination fees. The highest share is held by the Transportation sector whose share in the portfolio continued to increase, registering an increase of 2.60% in exposure during 2020.

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

(b) Maximum Exposure to Credit Risk (continued)

Analysis as at 31 December 2020 and 2019, is presented in the tables below:

Structure by sectors	Maximum exposure 2020	Percentage of exposure 2020	Maximum exposure 2019	Percentage of exposure 2019
1 Agriculture, forestry and fishing	1,264,077	7.26%	808,951	5.42%
2 Mining industry; Processing industry; Water supply, waste water management and related activities	2,071,867	11.89%	1,868,703	12.52%
3 Power supply, gas, steam supply and air conditioning	54,546	0.31%	47,104	0.32%
4 Construction	2,594,830	14.90%	2,170,825	14.54%
5 Wholesale and retail, vehicles and motorcycles repair	1,876,508	10.77%	1,644,087	11.01%
6 Transportation and storage; information and communications	5,454,439	31.31%	4,285,145	28.71%
7 Hotels and restaurants	257,166	1.48%	233,047	1.56%
8 Financial activities and insurance	34,558	0.20%	37,487	0.25%
9 Health care and social work	181,868	1.04%	207,578	1.39%
10 Other industries	3,630,348	20.84%	3,623,317	24.27%
Total	**17,420,207**	**100.00%**	**14,926,244**	**100.00%**

Exposure by leased asset	Maximum exposure 2020	Percentage of exposure 2020	Maximum exposure 2019	Percentage of exposure 2019
1 Production machines and equipment	5,130	0.03%	8,206	0.05%
2 Construction machines and equipment	1,817,146	10.43%	1,336,021	8.95%
3 Agriculture machines and equipment	1,119,579	6.43%	761,206	5.10%
4 Trucks, vans and buses	7,958,930	45.69%	6,565,122	43.98%
5 Passenger vehicles	4,512,222	25.90%	3,346,739	22.42%
6 Rail vehicles, watercraft and aircraft	12,924	0.07%	6,614	0.04%
7 House appliances	-	-	-	-
8 Machines and equipment for service provision	-	-	-	-
9 Other movables	977,950	5.61%	1,123,133	7.52%
10 Commercial properties	935,599	5.37%	1,693,105	11.34%
11 Other properties	80,727	0.46%	86,098	0.58%
Total	**17,420,207**	**100.00%**	**14,926,244**	**100.00%**

The largest share is held by trucks and buses in the amount of 45.69 %. The maximum exposure to the type of leased asset is 55% of the total exposure. In the reporting period, the Company did not exceed the limit of exposure by type of leased asset. During the year, the largest increase in exposure was in the case of Passenger Vehicles 3.48%, while the largest decrease in exposure was in the case of Commercial Real Estate of 5.97%.

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

(b) Maximum Exposure to Credit Risk (continued)

Exposure Risk

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

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

- Exposures to individual customers who have individually a higher amount of gross investments over 10% compared to the capital of the Company.

Exposure risk is measured in relation to the Company’s equity. As of 31 December 2020, 15 clients with the largest net receivables individually have exposure risk exceeding 10% of the Company’s equity (2019: 16 clients).

The Decision on Adoption of Limits for Defining the Company’s Risk Appetite (RAF limits) for individual clients and groups of related parties specifies maximum exposure of 30% compared to Company equity. As of the date of preparation of the financial statements the Company did not have any exposure to individual clients (groups of related parties) above the specified limit.

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

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

	2020	2019
Carrying amount of the allowance for impairment for receivables	335,847	288,246
Allowance for impairment of receivables without collateral	336,005	289,249
Effect on the calculation of the allowance for impairment of receivables	**158**	**91,701**
Effect on the calculation of collective allowances for impairment	158	91,701
Effect on the calculation of individual allowances for impairment	-	-

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

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

(b) Maximum Exposure to Credit Risk (continued)

Analysis of Collateral

Analysis of the portfolio by collateral type as at 31 December 2020 and 31 December 2019 is given in the following table:

	2020		2019	
	Gross placement	Total value of the collateral	Gross placement	Total value of the collateral
Receivables from corporate customers	**16,231,165**	**15,304,256**	**14,094,049**	**13,775,383**
Secured by mortgage	71,303	71,303	883,515	883,515
Secured by deposit and guarantee	1,194,423	1,194,423	1,544,245	1,544,245
Secured by leasing asset	14,965,439	14,038,530	11,666,289	11,347,623
Unsecured by collateral	-	-	-	-
Receivables from entrepreneurs, retail customers and farmers:	**1,497,120**	**1,368,914**	**1,083,460**	**1,056,677**
Secured by mortgage	-	-	11,972	11,972
Secured by deposit	208	208	2,745	2,745
Secured by leasing asset	1,496,912	1,368,706	1,068,743	1,041,960
Unsecured by collateral	-	-	-	-
Receivables from Banks	**1,988**	**1,988**	**7,049**	**6,446**
Secured by mortgage	-	-	-	-
Secured by deposit	-	-	-	-
Secured by leasing asset	1,988	1,988	7,049	6,446
Unsecured by collateral	-	-	-	-
Receivables from State and Local Government	**25,781**	**25,326**	**29,932**	**29,754**
Secured by mortgage	-	-	-	-
Secured by deposit	-	-	-	-
Secured by leasing asset	25,781	25,326	29,932	**29,754**
Unsecured by collateral	-	-	-	-
Total as at 31 December	**17,756,054**	**16,700,484**	**15,214,490**	**14,868,260**

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

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

(b) Maximum Exposure to Credit Risk (continued)

Analysis of Collateral (continued)

A presentation of the ratio between receivables and collateral value (LTV ratio) at 31 December 2020 and 31 December 2019 is given in the following table:

LTV ratio	2020 Amount of receivable	LTV ratio	2019 Amount of receivable
<50%	1,391,751	<50%	1,356,104
51% - 70%	2,983,371	51% - 70%	3,039,373
71% - 90%	4,596,794	71% - 90%	5,396,890
91% - 100%	3,028,024	91% - 100%	1,936,198
>100%	5,756,114	>100%	3,485,925
Total	**17,756,054**	**Total**	**15,214,490**

The LTV ratio in 91% - 100% range and >100% in 2020 registered the highest increase due to the increase in new placements.

(c) Assessment of Impairment of Financial Assets

Structure of the allowance for impairment of financial assets, i.e. receivables from finance lease activities excluding short term receivables, accrued interest income and deferred origination fees as at 31 December 2020 and 2019 is presented below:

2020	Gross receivables from finance lease activities	Allowance for impairment	Net receivables from finance lease activities
Receivables - Banca Intesa a.d. Beograd	1,988	(1)	1,987
Corporate Customers	1,166,379	(4,167)	1,162,212
Medium enterprises	4,592,304	(16,776)	4,575,528
Small enterprises	7,174,614	(81,209)	7,093,405
Micro enterprises	3,285,055	(128,179)	3,156,876
Entrepreneurs	1,129,745	(24,856)	1,104,888
Retail Customers	233,862	(12,720)	221,142
Farmers	133,513	(67,716)	65,797
Other Institutions	38,594	(223)	38,371
Total	**17,756,054**	**(335,847)**	**17,420,207**

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

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

2019	Gross receivables from finance lease activities	Allowance for impairment	Net receivables from finance lease activities
Receivables - Banca Intesa a.d. Beograd	7,049	(1)	7,048
Corporate Customers	1,373,175	(2,342)	1,370,832
Medium enterprises	3,423,301	(10,281)	3,413,020
Small enterprises	6,214,124	(58,389)	6,155,735
Micro enterprises	3,083,449	(116,122)	2,967,327
Entrepreneurs	723,021	(19,400)	703,621
Retail Customers	175,664	(12,247)	163,417
Farmers	184,775	(69,365)	115,410
Other Institutions	29,932	(99)	29,834
Total	**15,214,490**	**(288,246)**	**14,926,244**

Structure of impairment of financial assets by the model of impairment calculation as at 31 December 2020 and 2019 is presented in the following tables:

2020	Gross receivables from finance lease activities	% gross receivables	Allowance for impairment	% total impairment
Group impairment assessment	17,756,054	100.00%	(335,847)	100.00%
Individual impairment assessment	-	-	-	-
Total	**17,756,054**	**100.00%**	**(335,847)**	**100.00%**

2019	Gross receivables from finance lease activities	% gross receivables	Allowance for impairment	% total impairment
Group impairment assessment	15,214,490	100.00%	(288,246)	100.00%
Individual impairment assessment	-	-	-	-
Total	**15,214,490**	100.00%	**(288,246)**	**100.00%**

As of 31 December 2020, the estimated amount of impairment of cash and financial placements with banks is immaterial, given that these assets are held with Banca Intesa a.d. Beograd. The Company estimated that the impairment of credit risk items within Other assets is immaterial and accordingly did not report any impairment.

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

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

Off-balance sheet exposure for receivables that were derecognized in 2020 amounted to RSD 946 thousand, although these are still the subject of collection. Receivables derecognized in 2020 include receivables for damages following the sale of repossessed lease assets.

The Company performed assessment of credit risk for Other financial placements for securities that are measured at fair value through other comprehensive income.

Movements in impairment of Securities are presented in the following tables:

	2020	2019
Balance as at 1 January	**2,715**	**2,223**
Increased purchase of securities	-	2,289
Decrease - collection of securities	-	(1,774)
Increase in calculation during the year	-	-
Decrease in calculation during the year	(1,326)	(23)
Balance as at 31 December	**1,389**	**2,715**

31.2 Liquidity risk

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

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

Objectives of liquidity management comprise:

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

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

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

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

Furthermore, the Company has contracted long term credit lines as an instrument for liquidity management as of 31 December 2020 and 31 December 2019.

31 RISK MANAGEMENT (continued)

31.2 Liquidity risk (continued)

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

The cumulative GEP is negative for a period from 6 to 18 months, due to the fact that in that period it is due to pay more obligations on loans from maturity of placements. The company plans to adjust this GEP by withdrawing new long-term loans.

31 RISK MANAGEMENT (continued)

31.2 Liquidity risk (continued)

	Carrying amount	Gross amount	Up to 30 days	1 to 3 months	3 to 6 months	6 to 12 months	12 to 18 months	18 months to 5 years	Over 5 years	Gross amount Undefined maturity*
ASSETS										
Cash	157,267	157,267	157,267	-	-	-	-	-	-	-
Financial placements held with banks	3,186,423	3,186,423	2,351,604	-	-	-	-	834,819	-	-
Other financial placements and derivatives	961,587	961,587	-	-	-	-	618,069	114,588	-	228,930
Receivables from finance lease activities	17,373,979	17,722,557	894,031	1,123,859	1,451,769	2,842,560	2,461,277	8,506,028	523,249	(80,216)
Repossessed leased assets and inventories	30,175	86,209	-	-	-	-	-	-	-	86,209
Intangible assets	21,790	64,004	-	-	-	-	-	-	-	64,004
Property, plant and equipment	11,849	35,808	-	-	-	-	-	-	-	35,808
Deferred tax assets	3,786	3,786	-	-	-	-	-	-	-	3,786
Other assets	77,573	142,407	10,922	14,849	6,369	12,938	11,396	249	-	85,684
TOTAL ASSETS	**21,824,429**	**22,360,048**	**3,413,824**	**1,138,708**	**1,458,138**	**2,855,498**	**3,090,742**	**9,455,684**	**523,249**	**424,205**
EQUITY AND LIABILITIES										
Borrowings from banks and other financial institutions	20,318,073	20,318,072	381,553	881,924	1,292,829	7,371,813	2,302,785	7,936,081	194,786	(43,699)
Other financial liabilities and derivatives	9,975	9,975	464	930	1,399	2,814	996	3,372	-	-
Provisions	12,521	12,520	-	-	-	11,655	-	-	-	865
Current tax liabilities	748	748	-	-	748	-	-	-	-	-
Other liabilities	98,579	98,579	74,512	7,127	8,898	-	-	-	-	8,042
Total liabilities	**20,439,896**	**20,439,894**	**456,529**	**889,981**	**1,303,874**	**7,386,282**	**2,303,781**	**7,939,453**	**194,786**	**(34,792)**
Stake capital	960,374	960,374	-	-	-	-	-	-	-	960,374
Reserves, revaluation reserves	317,480	317,480	-	-	-	-	-	-	-	317,480
Profit	106,679	106,679	-	-	-	-	-	-	-	106,679
Total equity	**1,384,533**	**1,384,533**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,384,533**
TOTAL EQUITY AND LIABILITIES	**21,824,429**	**21,824,427**	**456,529**	**889,981**	**1,303,874**	**7,386,282**	**2,303,781**	**7,939,453**	**194,786**	**1,349,741**
Liquidity gap as at 31 December 2020		**535,621**	**2,957,295**	**248,727**	**154,264**	**(4,530,784)**	**786,961**	**1,516,231**	**328,463**	**(925,536)**
Cumulative liquidity gap		**535,621**	**2,957,295**	**3,206,022**	**3,360,286**	**(1,170,498)**	**(383,537)**	**1,132,694**	**1,461,157**	**-**

** Amounts presented in the Gross amount column without specified maturity represents non-financial assets and liabilities and equity*

31 RISK MANAGEMENT (continued)

31.2 Liquidity risk (continued)

	Carrying amount	Gross amount	Up to 30 days	1 to 3 months	3 to 6 months	6 to 12 months	12 to 18 months	18 months to 5 years	Over 5 years	Gross amount Undefined maturity*
ASSETS										
Cash	176,388	176,388	176,388	-	-	-	-	-	-	-
Financial placements held with banks	-	-	-	-	-	-	-	-	-	-
Other financial placements and derivatives	760,088	760,088	25,931	-	-	-	-	707,622	-	26,535
Receivables from finance lease activities	14,885,212	16,041,253	771,935	996,735	1,333,717	2,488,202	2,239,169	8,005,001	275,399	(68,905)
Repossessed leased assets and inventories	28,793	80,420	-	-	-	-	-	-	-	80,420
Intangible assets	21,585	56,063	-	-	-	-	-	-	-	56,063
Property, plant and equipment	19,096	35,302	-	-	-	-	-	-	-	35,302
Deferred tax assets	3,709	3,709	-	-	-	-	-	-	-	3,709
Other assets	59,414	117,524	7,655	33,435	393	604	573	-	-	74,864
TOTAL ASSETS	**15,954,285**	**17,270,747**	**981,909**	**1,030,170**	**1,334,110**	**2,488,806**	**2,239,742**	**8,712,623**	**275,399**	**207,988**
EQUITY AND LIABILITIES										
Borrowings from banks and other financial institutions	14,553,406	14,838,818	278,795	466,072	1,023,501	2,298,828	1,706,709	8,315,469	779,453	(30,009)
Other financial liabilities	16,382	16,382	531	1,062	1,599	3,215	2,793	7,182	-	-
Provisions	18,786	18,786	-	-	-	18,219	-	-	-	567
Current tax liabilities	4,052	4,052	-	-	4,052	-	-	-	-	-
Other liabilities	73,988	73,988	53,183	4,553	9,492	-	-	-	-	6,760
Total liabilities	**14,666,614**	**14,952,026**	**332,509**	**471,687**	**1,038,644**	**2,320,262**	**1,709,502**	**8,322,651**	**779,453**	**(22,682)**
Stake capital	960,374	960,374	-	-	-	-	-	-	-	960,374
Unrealized gains	132,618	132,618	-	-	-	-	-	-	-	132,618
Profit	194,679	194,679	-	-	-	-	-	-	-	194,679
Total equity	**1,287,671**	**1,287,671**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,287,671**
TOTAL EQUITY AND LIABILITIES	**15,954,285**	**16,239,697**	**332,509**	**471,687**	**1,038,644**	**2,320,262**	**1,709,502**	**8,322,651**	**779,453**	**1,264,989**
Liquidity gap as at 31 December 2019		**1,031,050**	**649,400**	**558,483**	**295,466**	**168,544**	**530,240**	**389,972**	**(504,054)**	**(1,057,001)**
Cumulative liquidity gap		**1,031,050**	**649,400**	**1,207,883**	**1,503,349**	**1,671,893**	**2,202,133**	**2,592,105**	**2,088,051**	**1,031,050**

* *Amounts presented in the Gross amount column without specified maturity represents non-financial assets and liabilities and equity*

31 RISK MANAGEMENT (continued)

31.3 Market risk

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

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

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

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

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

31.3.1 Interest Rate Risk

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

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

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

The following table shows the Repricing Gap Report, i.e. the Company's exposure to the interest rate risk as at 31 December 2020. Assets and liabilities are shown by the date of re-determination of the interest or maturity date, depending on which date is earlier. The table also contains non-financial assets and liabilities (positions: Purchase of leases and inventories, Intangible assets, Property, plant and equipment, Deferred tax assets, Provisions, Current tax liabilities) for the completeness of the examination and comparability with the Balance Sheet.

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

31 RISK MANAGEMENT (continued)

31.3 Market Risk (continued)

31.3.1 Interest Rate Risk (continued)

	Carrying amount	Up to 30 days	1 to 3 months	3 to 6 months	6 to 12 months	12 to 18 months	18 months to 5 years	Over 5 years	Non-interest sensitive
ASSETS									
Cash	157,267	157,267	-	-	-	-	-	-	-
Financial placements held with banks	3,186,423	-	-	-	-	-	834,819	-	2,351,604
Other financial placements and derivatives	961,587	-	-	-	-	618,069	114,588	-	228,930
Receivables from finance lease activities	17,373,979	364,605	9,867,972	1,468,559	1,289,711	1,102,944	3,221,629	440,634	(382,075)
Repossessed leased assets and inventories	30,175	-	13,263	-	-	-	-	-	16,912
Intangible assets	21,790	-	-	-	-	-	-	-	21,790
Property, plant and equipment	11,849	-	-	-	-	-	-	-	11,849
Deferred tax assets	3,786	-	-	-	-	-	-	-	3,786
Other assets	77,573	-	-	-	-	-	-	-	77,573
TOTAL ASSETS	**21,824,429**	**521,872**	**9,881,235**	**1,468,559**	**1,289,711**	**1,721,013**	**4,171,036**	**440,634**	**2,330,369**
EQUITY AND LIABILITIES									
Borrowings from banks and other financial institutions	20,318,073	691,671	1,052,013	9,814,584	3,050,822	1,006,262	4,531,336	194,786	(23,401)
Other financial liabilities and derivatives	9,975	-	-	-	-	-	-	-	9,975
Provisions	12,521	-	-	-	-	-	-	-	12,521
Current tax liabilities	748	-	-	-	-	-	-	-	748
Other liabilities	98,579	-	-	-	-	-	-	-	98,579
Total liabilities	**20,439,896**	**691,671**	**1,052,013**	**9,814,584**	**3,050,822**	**1,006,262**	**4,531,336**	**194,786**	**98,422**
Stake capital	960,374	-	-	-	-	-	-	-	960,374
Reserves, unrealized gains	317,480	-	-	-	-	-	-	-	317,480
Profit	106,679	-	-	-	-	-	-	-	106,679
Total equity	**1,384,533**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,384,533**
TOTAL EQUITY AND LIABILITIES	**21,824,429**	**691,671**	**1,052,013**	**9,814,584**	**3,050,822**	**1,006,262**	**4,531,336**	**194,786**	**1,482,955**
Periodic GAP as at 31 December 2020		**(169,799)**	**8,829,222**	**(8,346,025)**	**(1,761,111)**	**714,751**	**(360,300)**	**245,848**	**847,414**
Cumulative GAP		**(169,799)**	**8,659,423**	**313,398**	**(1,447,713)**	**(732,962)**	**(1,093,262)**	**(847,414)**	**-**

31 RISK MANAGEMENT (continued)

31.3 Market Risk (continued)

31.3.1 Interest Rate Risk (continued)

	Carrying amount	Up to 30 days	1 to 3 months	3 to 6 months	6 to 12 months	12 to 18 months	18 months to 5 years	Amount over 5 years	Non-interest sensitive
ASSETS									
Cash	176,388	176,388	-	-	-	-	-	-	-
Financial placements held with banks	-	-	-	-	-	-	-	-	-
Other financial placements and derivatives	760,088	-	-	-	-	-	733,553	-	26,535
Receivables from finance lease activities	14,885,212	323,904	8,245,090	1,465,831	1,149,331	1,013,099	2,980,675	36,561	(329,279)
Repossessed leased assets and inventories	28,793	-	5,917	-	-	-	-	-	22,876
Intangible assets	21,585	-	-	-	-	-	-	-	21,585
Property, plant and equipment	19,096	-	-	-	-	-	-	-	19,096
Deferred tax assets	3,709	-	-	-	-	-	-	-	3,709
Other assets	59,414	-	-	-	-	-	-	-	59,414
TOTAL ASSETS	**15,954,285**	**500,292**	**8,251,007**	**1,465,831**	**1,149,331**	**1,013,099**	**3,714,228**	**36,561**	**(176,064)**
EQUITY AND LIABILITIES									
Borrowings from banks and other financial institutions	14,553,406	792,770	1,055,441	3,925,218	1,666,834	1,595,397	4,939,828	586,758	(8,840)
Other financial liabilities and derivatives	16,382	-	-	-	-	-	-	-	16,382
Provisions	18,786	-	-	-	-	-	-	-	18,786
Current tax liabilities	4,052	-	-	-	-	-	-	-	4,052
Other liabilities	73,988	-	-	-	-	-	-	-	73,988
Total liabilities	**14,666,614**	**792,770**	**1,055,441**	**3,925,218**	**1,666,834**	**1,595,397**	**4,939,828**	**586,758**	**104,368**
Stake capital	960,374	-	-	-	-	-	-	-	960,374
Reserves, unrealized gains	132,618	-	-	-	-	-	-	-	132,618
Profit	194,679	-	-	-	-	-	-	-	194,679
Total equity	**1,287,671**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,287,671**
TOTAL EQUITY AND LIABILITIES	**15,954,285**	**792,770**	**1,055,441**	**3,925,218**	**1,666,834**	**1,595,397**	**4,939,828**	**586,758**	**1,392,039**
Periodic GAP as at 31 December 2019		**(292,478)**	**7,195,566**	**(2,459,387)**	**(517,503)**	**(582,298)**	**(1,225,600)**	**(550,197)**	**(1,568,103)**
Cumulative GAP		**(292,478)**	**6,903,088**	**4,443,701**	**3,926,198**	**3,343,900**	**2,118,300**	**1,568,103**	**-**

31 RISK MANAGEMENT (continued)

31.3 Market Risk (continued)

31.3.1 Interest Rate Risk (continued)

The total cumulative GAP for one year per day as of December 31, 2020 is RSD 1,761,111 thousand (December 31, 2019: RSD 3,926,198 thousand) and can be considered an acceptable level of interest rate compliance.

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

Interest rate risk can be presented as follows:

	Total	0-18 months	18 months - 3 years	3 - 5 years	5 - 10 years
Total	**40,227**	**(26,650)**	**(3,906)**	**71,576**	**(793)**
EUR	69,875	(6,853)	5,654	71,867	(793)
RSD	(29,648)	(19,797)	(9,560)	(291)	-

By changing the interest rate by 2.00%, the effect on the Company's revenues and expenditures would amount to RSD 40,227 thousand, which is less than the limit of 20% compared to equity, which is RSD 276,907 thousand. The percentage of limit use is 12,24% for change of -2%, and 14,53% for change of +2%.

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

Forms of risks that may be subject to monitoring are:

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

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

31 RISK MANAGEMENT (continued)

31.3 Market Risk (continued)

31.3.1 Interest Rate Risk (continued)

The following is an overview of market risk associated with Available for sale securities:

Sensitivity of net value of the AFS securities portfolio	Increase of 200bp	Decrease of 200bp
2020		
As of 31 December	(22,769)	36,022
Period average	(26,010)	32,647
Period maximum	(35,719)	22,553
Period minimum	(22,759)	38,542
2019		
As of 31 December	(40,785)	44,285
Period average	(32,592)	35,268
Period maximum	(40,785)	44,285
Period minimum	(8,610)	8,923

31.3.2 Foreign currency risk

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

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

In order to manage foreign currency risk, the Company negotiates finance lease contracts in EUR, with annuities paid in the dinar equivalent at the applicable contract exchange rate. Offering finance lease in different currencies leads to the exposure to exchange rates fluctuations for different currencies. In accordance with the Company's internal policy, as well as potential fluctuations in exchange rates, the open foreign currency position limit has been set up to EUR 800 thousand.

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

During 2020, the Company monitored compliance with foreign exchange risk indicators, this indicator exceeded the defined limit for three days in 2020, because the days of posting of announced finance lease placements occurred on the following day (in 2019 - six days). There has never been a break in the defined limit for two consecutive days.

The total open foreign currency position as at 31 December 2020 amounted to RSD 33,135 thousand, while the foreign exchange risk indicator was 2.39% of equity, and as at 31 December 2019 it amounted to RSD 28,749 thousand, while the indicator of foreign currency risk amounted to 2.23% of the Company's capital.

31 RISK MANAGEMENT (continued)

31.3 Market Risk (continued)

31.3.2 Foreign currency risk (continued)

The following table shows the Company's exposure to foreign currency risk **as at 31 December 2020**:

	Carrying amount	RSD	EUR
ASSETS			
Cash	157,267	157,267	-
Financial placements held with banks	3,186,423	-	3,186,423
Other financial placements and derivatives	961,587	961,587	-
Receivables from finance lease activities	17,373,979	239,346	17,134,633
Repossessed leased assets and inventories	30,175	844	29,331
Intangible assets	21,790	21,790	-
Property, plant and equipment	11,849	11,849	-
Deferred tax assets	3,786	3,786	-
Other assets	77,573	41,505	36,068
TOTAL ASSETS	**21,824,429**	**1,437,974**	**20,386,455**
EQUITY AND LIABILITIES			
Financial liabilities - banks	20,318,073	(43,698)	20,361,771
Other financial liabilities and derivatives	9,975	-	9,975
Provisions	12,521	12,521	-
Current tax liabilities	748	748	-
Other liabilities	98,579	50,735	47,844
Total liabilities	**20,439,896**	**20,306**	**20,419,590**
Stake capital	960,374	960,374	-
Unrealized gains	317,480	317,480	-
Gains	106,679	106,679	-
Total equity	**1,384,533**	**1,384,533**	**-**
TOTAL EQUITY AND LIABILITIES	**21,824,429**	**1,404,839**	**20,419,590**
Net foreign currency position 31 December 2020	**-**	**33,135**	**(33,135)**

The table also contains non-financial assets and liabilities (positions: Purchase of leases and inventories, Intangible assets, Property, plant and equipment, Deferred tax assets, Provisions, Current tax liabilities) for the completeness of the examination and comparability with the Balance Sheet.

31 RISK MANAGEMENT (continued)

31.3 Market Risk (continued)

31.3.2 Foreign currency risk (continued)

The following table shows the Company's exposure to foreign currency risk **as at 31 December 2019**:

	Carrying amount	RSD	EUR
ASSETS			
Cash	176,388	176,388	-
Other financial placements and derivatives	760,088	760,088	-
Receivables from finance lease activities	14,885,212	252,558	14,632,654
Repossessed leased assets and inventories	28,793	906	27,887
Intangible assets	21,585	21,585	-
Property, plant and equipment	19,096	19,096	-
Deferred tax assets	3,709	3,709	-
Other assets	59,414	56,761	2,653
TOTAL ASSETS	**15,954,285**	**1,291,091**	**14,663,194**
EQUITY AND LIABILITIES			
Financial liabilities - banks	14,553,406	(30,009)	14,583,415
Other financial liabilities and derivatives	16,382	-	16,382
Provisions	18,786	18,786	-
Current tax liabilities	4,052	4,052	-
Other liabilities	73,988	39,340	34,648
Total liabilities	**14,666,614**	**32,169**	**14,634,445**
Stake capital	960,374	960,374	-
Unrealized gains	132,618	132,618	-
Gains	194,679	194,679	-
Total equity	**1,287,671**	**1,287,671**	**-**
TOTAL EQUITY AND LIABILITIES	**15,954,285**	**1,319,840**	**14,634,445**
Net foreign currency position 31 December 2019	**-**	**(28,749)**	**28,749**

31 RISK MANAGEMENT (continued)

31.3 Market Risk (continued)

31.3.2 Foreign currency risk (continued)

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

Scenario	Effect on 2020 Statement of profit and loss	Effect on 2019 Statement of profit and loss
10% depreciation of RSD	3,313	2,875
20% depreciation of RSD	6,626	5,750

As shown above, in the case of depreciation of the dinar exchange rate by 10%, the effect on the result and the equity of the Company would be positive in the amount of RSD 3,313 thousand.

Foreign exchange risk indicator in the event of the depreciation of the dinar exchange rate by 10% would be 2.63%, and in the case of the depreciation of the dinar exchange rate by 20% would be 2.87%.

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

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

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

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

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

31.4 Operational Risk

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

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

31 RISK MANAGEMENT (continued)

31.4 Operational Risk (continued)

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

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

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

During 2020 operational risks were traced through the “BIBOp” application. Tracing and recording of identified events that cause the Company’s operational risks is performed by operational risk monitoring coordinators.

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

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

During 2020 there were five operational risk cases and they can be shown in the following table:

Type of operational risk	Number of cases	Potential damage in EUR
Other fraud	1	75,857
Natural disaster	1	587
Inadequate business practice	3	5,164
Total	**5**	**81,608**

The type of Other fraud refers to the case of a sale & lease back transaction in which a partner was approved financing of a higher value based on the documentation submitted in relation to the value of the item, as determined by a subsequent valuation by a certified appraiser.

The realization of the contract was prevented. This prevented fraud and potential loss to the Company in the entire amount because such equipment in case of repossession could not be sold at the invoiced amount, and probably not at the appraised value, so the contract was not realized.

31 RISK MANAGEMENT (continued)

31.5 Fair Value of Financial Assets and Liabilities

The planned corrective activity is that for each type of equipment where the domestic supplier is also the manufacturer, a future assessment of the market value is performed, even though new equipment is involved. For this type of equipment, there is already a User's Guide for attending the handover, monitoring of leased asset, collateral audit. The billing department is charged with consistently applying the user manual.

The Company's policy is to disclose fair value information for financial assets and liabilities for which published or quoted market prices are readily available, and when fair value may be materially different from recorded amounts.

Market price, when there is an active market, provides best evidence of fair value of a financial instrument. However, market price is unavailable for numerous financial assets and liabilities held by the Company. Therefore, when the market price of a financial instrument is unavailable, the fair value of assets and liabilities is estimated using the present value or other valuation techniques based on currently effective market conditions.

Based on detailed analysis, management holds that the fair value of financial assets and financial liabilities of the Company corresponds to their carrying amount as at reporting date.

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

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

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

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

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

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

- State bonds of the Republic of Serbia valued by applying the technique of discounting future contracted cash flows using market risk-free yield curves adjusted for country risk (for bonds denominated in euro) or liquidity risk (for dinar bonds for which maturity there is no direct quotation) (Level 2) and investments in investment funds.

31 RISK MANAGEMENT (continued)

31.5 Fair Value of Financial Assets and Liabilities (continued)

The following table shows the value of financial instruments stated at fair value in the balance sheet of the Company as at 31 December 2020 and 2019, measured on the basis of different information in accordance with the hierarchies within the prescribed Policies for fair value:

2020	Level 1	Level 2	Level 3	Total Fair Value	Carrying value
Other financial placements and derivatives	-	961,587	-	961,587	961,587
Total	**-**	**961,587**	**-**	**961,587**	**961,587**

2019	Level 1	Level 2	Level 3	Total Fair Value	Carrying value
Other financial placements and derivatives	-	760,088	-	760,088	760,088
Total	**-**	**760,088**	**-**	**760,088**	**760,088**

In the opinion of the Company's management, the amounts in the accompanying financial statements reflect the value that is most likely to be the most reliable and useful for reporting purposes in the circumstances.

The following table shows the fair value of instruments that are not valued at fair value in the balance sheet of the Company and are allocated according to the respective levels of the fair value hierarchy as at 31 December 2020 and 31 December 2019:

2020	Level 1	Level 2	Level 3	Total Fair Value	Carrying value
Cash	-	157,267		157,267	157,267
Financial placements held with banks	-	3,186,423	-	3,186,423	3,186,423
Receivables from finance lease activities	-	-	17,175,027	17,175,027	17,373,979
Total assets	**-**	**3,343,690**	**17,175,027**	**20,518,717**	**20,717,669**
Borrowings from banks and other financial institutions	-	19,320,748	-	19,320,748	20,318,073
Total liabilities	**-**	**19,320,748**	**-**	**19,320,748**	**20,318,073**

2019	Level 1	Level 2	Level 3	Total Fair Value	Carrying value
Cash	-	176,388		176,388	176,388
Financial placements held with banks	-	-	-	-	-
Receivables from finance lease activities	-	-	14,705,058	14,705,058	14,885,212
Total assets	**-**	**176,388**	**14,705,058**	**14,881,446**	**15,061,600**
Borrowings from banks and other financial institutions	-	13,746,427	-	13,746,427	14,553,406
Total liabilities	**-**	**13,746,427**	**-**	**13,746,427**	**14,553,406**

31 RISK MANAGEMENT (continued)

31.5 Fair Value of Financial Assets and Liabilities (continued)

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

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

32 CAPITAL MANAGEMENT

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

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

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

As at 31 December 2020 the Company's stake capital amounts to RSD 960,374 thousand (31 December 2019: 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.

At the shareholder meeting of the Company held on March 25, 2020, the Decision on Distribution of Retained Earnings from Previous Years was adopted. In accordance with the shareholders' decision, the Company's retained earnings from previous years in the total amount of RSD 194,679 thousand is distributed to the Company's capital reserves. Given the amount of Company's base capital, the said payment of retained earnings will not impact compliance with the capital adequacy ratio.

33 RECONCILIATION OF RECEIVABLES AND PAYABLES

In accordance with Article 22 of the Accounting Law, the Company performed the reconciliation procedure of receivables and payables with its debtors and creditors with the balance as of 31 December 2020.

Confirmations were sent to 3,024 clients lessees. During reconciliation, the clients disputed total receivables amounts in the amount of RSD 49 thousand. Analysis of disputed receivables indicated that causes of the dispute relate to failure on the part of clients to update information in accordance with effective payment schedules, where lessees failed to calculate property foreign exchange in their records. These clients were provided with effective payment schedules for the purpose of making appropriate adjustment to their records.

At 31 December 2020 the Company reconciled all liabilities with creditors.

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

34 CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS

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

	2020	2019
Current accounts in RSD (Note 15)	157,267	176,388
Foreign currency accounts (Note16)	2,351,604	-
Balance as at 31 December	**2,508,871**	**176,388**

35 SUBSEQUENT EVENTS

There were no significant events after the date of the reporting period that would require corrections or disclosures in the notes with the accompanying financial statements of the Company for 2020.

Belgrade, 22 February 2021

Report prepared by	Legal Representative
Predrag Topalović	Nebojša Janićijević

T R A N S L A T I O N

INTESA LEASING D.O.O. BEOGRAD

ANNUAL BUSINESS REPORT FOR 2020

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

ANNUAL BUSINESS REPORT
For the year ended as at 31 December 2020

CONTENTS

1. DESCRIPTION OF BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE

1.1. BUSINESS ACTIVITIES

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

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

The Company finances: equipment, real estate, passenger and commercial vehicles. Selling channels are: direct selling channel (Intesa Leasing), Banca Intesa a.d. Beograd selling channel and 14 external selling channels through intermediaries.

In accordance with the criteria of the Accounting Act (Official Gazette of the Republic of Serbia no. 73/2019) the Company is classified as large legal entity.

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

Company headquarters are located in Belgrade, no. 7b Milentija Popovića Street.

The Company’s tax identification number is 103023875. The Company’s corporate ID number is 17492713.

In 2020, the Company has achieved:

- steady and sustainable growth in terms of portfolio, total assets and new products;
- maintained the quality of assets and portfolio;
- more favorable sources of financing.

1.2. Organizational Structure

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

There were no changes in the organizational structure during 2020.

The Company is comprised of:

- Departments,
- Offices, and
- Teams.

1. DESCRIPTION OF BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE (continued)

1.2 Organizational Structure (continued)

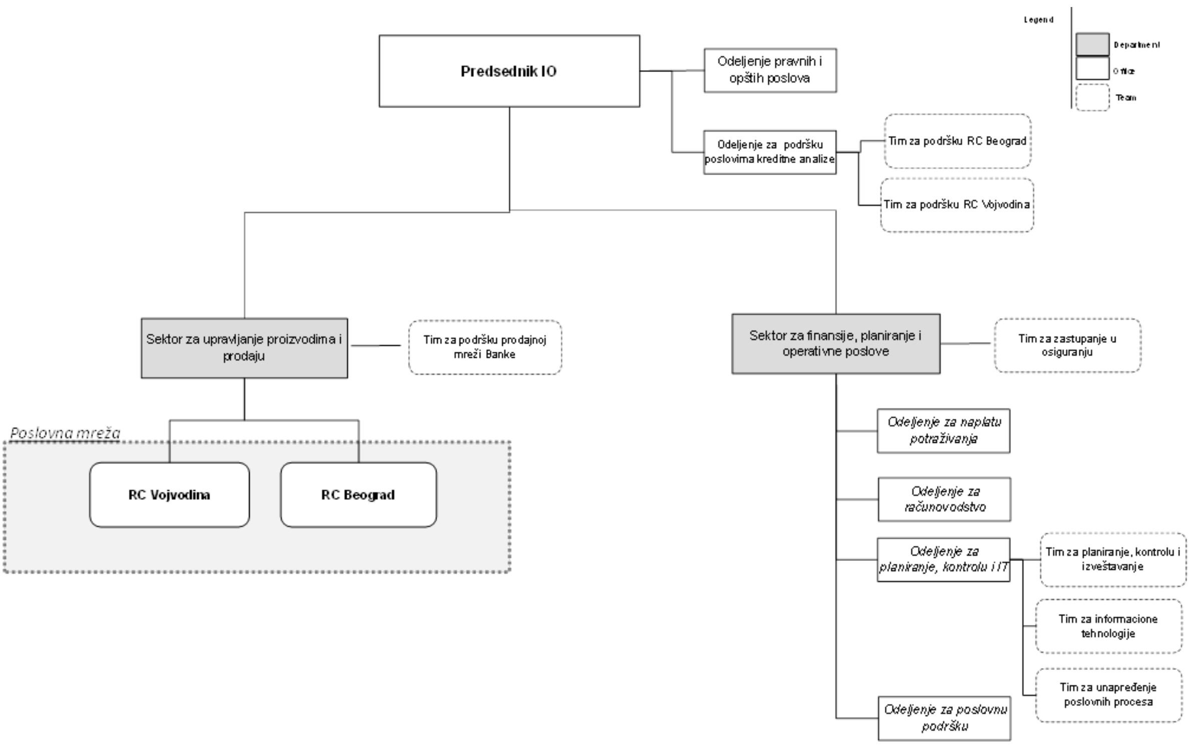
Managing bodies of Intesa Leasing d.o.o Beograd are:

- **Shareholder's Assembly,** there is one representative of Banca Intesa a.d. Beograd.
- **Board of Directors of the Company** - includes the Chairman and two members of the Board of Directors from Banca Intesa a.d. Beograd.
- **Executive Board of the Company (Top management)**: Chairman and two members of the Executive Board of the Company. According to the Law, the Company is being represented by the Chairman of the Executive Board. Under the authority of the **members** of the Executive Board are Product Management and Sales Department and Finance, Planning and Operation Department.

Other managing staff of the Company comprise:

- **Middle management:** Directors of Offices;
- **Line management:** Team leaders; and
- **Managing centers of the Company** are organizational parts which are responsible directly to the Chairman of the Executive Board and which in their fields provide support to the Chairman of the Executive Board in the process of managing the Company, specifically: Legal and General Affairs Office and Credit Analyses Support Office.

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

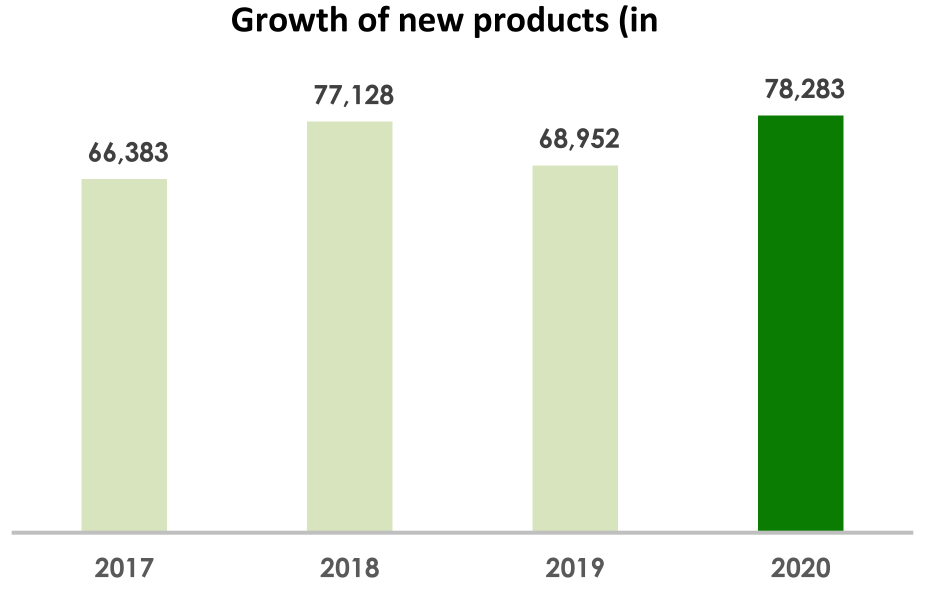


2. COMPANY'S OPERATIONS

2.1. Commercial activities

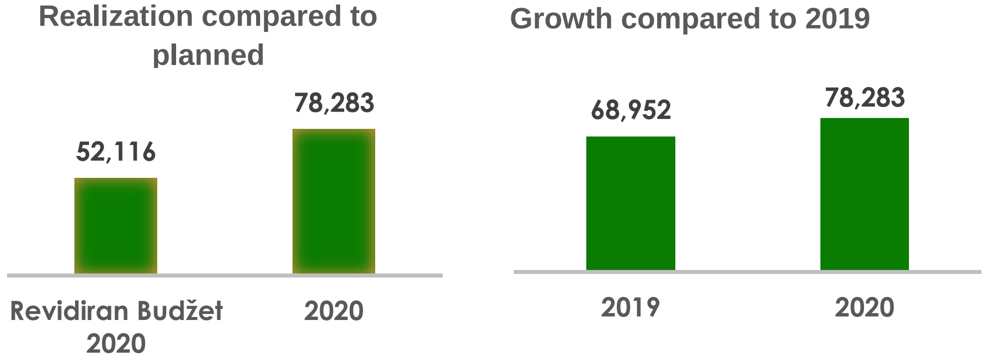
In a specific and difficult year in itself, in changed working conditions, in a period when industries are slowing down significantly, even the leasing sector itself, Intesa Leasing achieved the best sales result in the history of its business and took first place in the market. During the observed period from 2017 to 2020, the Company recorded an increase in sales results. Compared to 2019, when there was a slight decline in sales, in 2020 it achieved exceptional sales growth. The total funded value of 2,319 new leasing contracts in 2020 amounted to EUR 78 million.

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



Comparing to the previous year, the Company recorded an increase in new placements growth rate of 13.5% (EUR 9.3 million). Financed value of placements in 2020 amounted to EUR 78.3 million, which is 50.2 % (EUR 9.3 million) significantly above planned values for 2020 (EUR 52,1 million) and represents the highest ever placement level the Company achieved.

Figure 3. Comparison of the realization of new placements according to the plan for 2020 and 2019
(in millions of EUR)

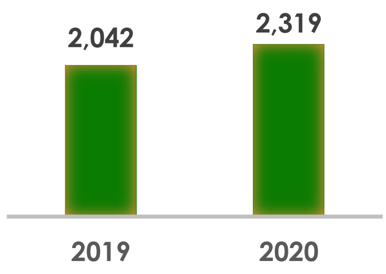


2. COMPANY'S OPERATIONS (continued)

2.1 Commercial activities (continued)

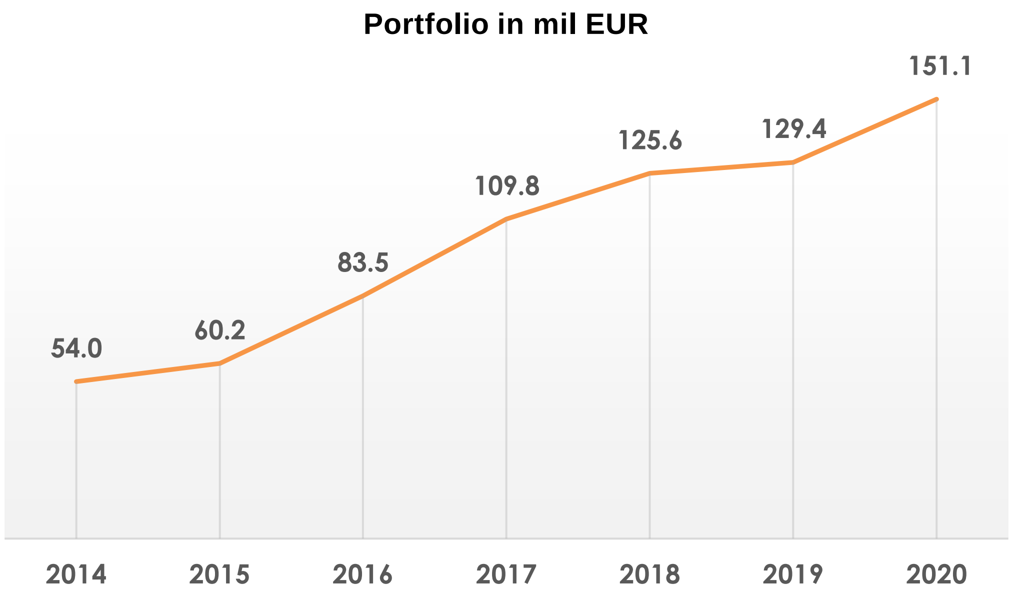
The total number of new lease agreements realized in 2020 amounts to 2,319, which is an increase by 1,277 agreements compared to 2019.

Figure 4. Comparison of the realization of new contracts for 2020 and 2019



The Company registered continued growth. In 2020, the Company achieved the highest level of placements since its started operating, i.e. EUR 151.1 million, which is EUR 21.7 million higher than in 2019 (EUR 129.4).

Figure 5. Portfolio growth by years



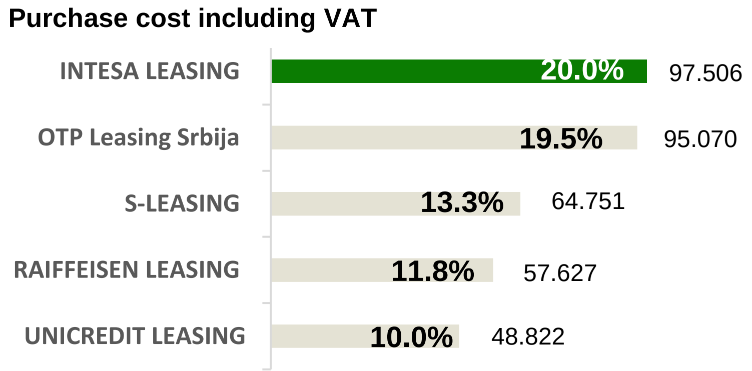
2. COMPANY'S OPERATIONS (continued)

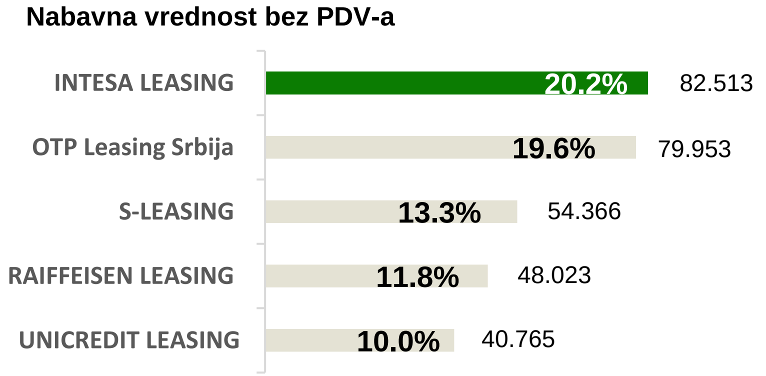
2.2. Market share

According to the data of the Association of Leasing Companies of Serbia ("ALCS") for the fourth quarter of 2020, the Company took first place in the leasing market according to indicators of new placements: purchase values without VAT with a market share of 20.2%, purchase values with VAT with a market share of 20% and financed values with a market share of 19.9%.

The following graphs show market share of five largest leasing companies at the end of 2020, according to the criteria of new products: purchased value with VAT, purchased value without VAT and financed value. Values are shown in thousand EUR.

Figure 6. Market share of five largest leasing companies according to the indicators of new products: purchase cost including VAT, and purchase value without VAT (in thousands of EUR)





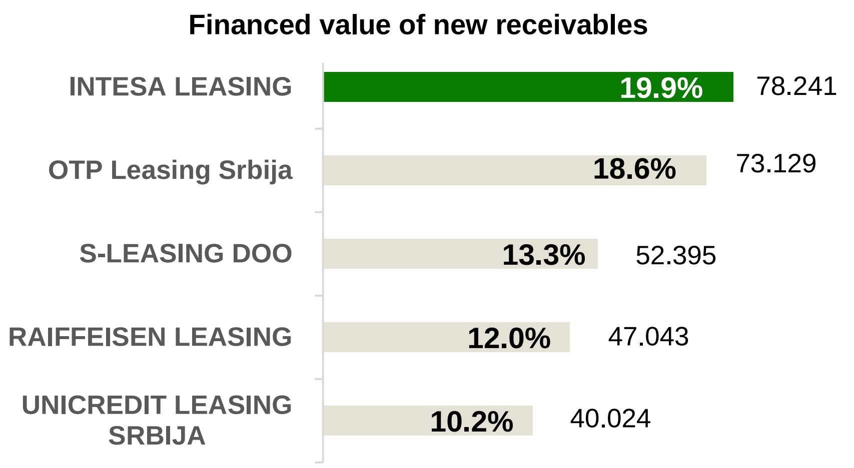
Compared to the five largest leasing companies, Intesa Leasing has achieved the position of market leader despite the Covid crisis. The leasing market in 2020 experienced a significant decline in terms of new production, as much as 22% compared to 2019. Despite all the events in 2020, the Company operated very successfully, taking first place in the market starting from the second quarter until the end of the year.

2. COMPANY'S OPERATIONS (continued)

2.2 Market share (continued)

According to the indicator Financed value the Company occupied first place with a share of 19.9% in the total realization of new placements on leasing market at the end of 2020. The total value of new leasing market placements at the end of 2020 amounted to EUR 393 million, which is a decrease of 22% compared to 2019.

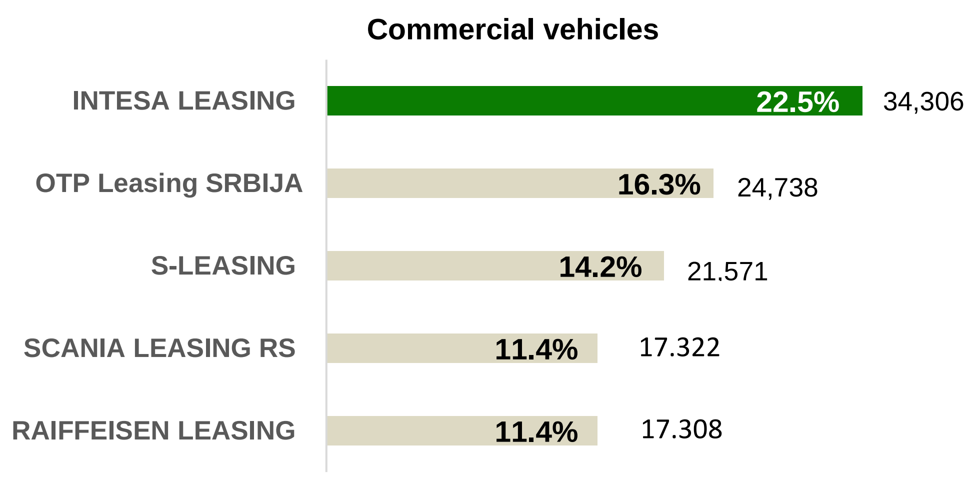
Figure 7. Market share of five largest leasing companies according to indicator of financed value of new receivables (in thousands EUR)



At the end of 2020, the Company occupied the first place in commercial vehicle segment and the first place in the equipment segment. In the passenger vehicle segment, the Company occupied the third place.

The following graphs show market share of five largest leasing companies at the end of 2020, according to the criteria of new products by type of leasing products (in thousands of EUR):

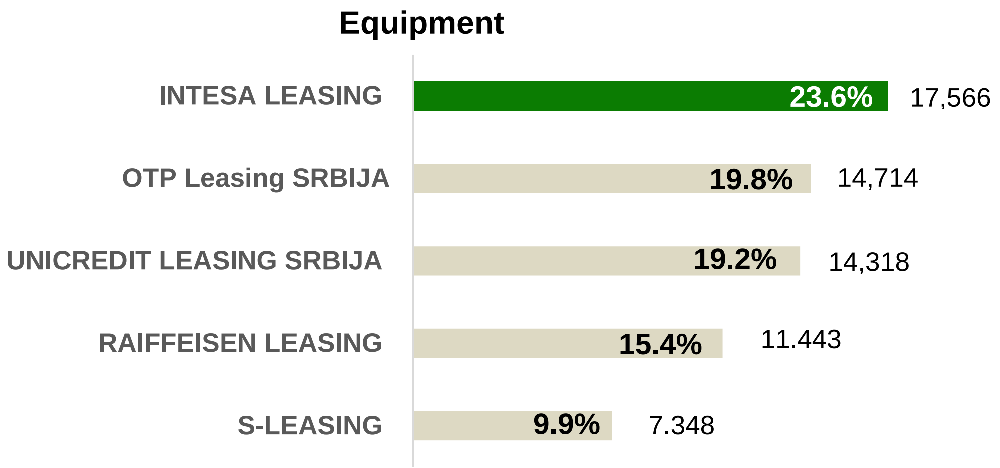
Figure 8. Market share of five largest leasing companies by type of equipment (in thousands of EUR)

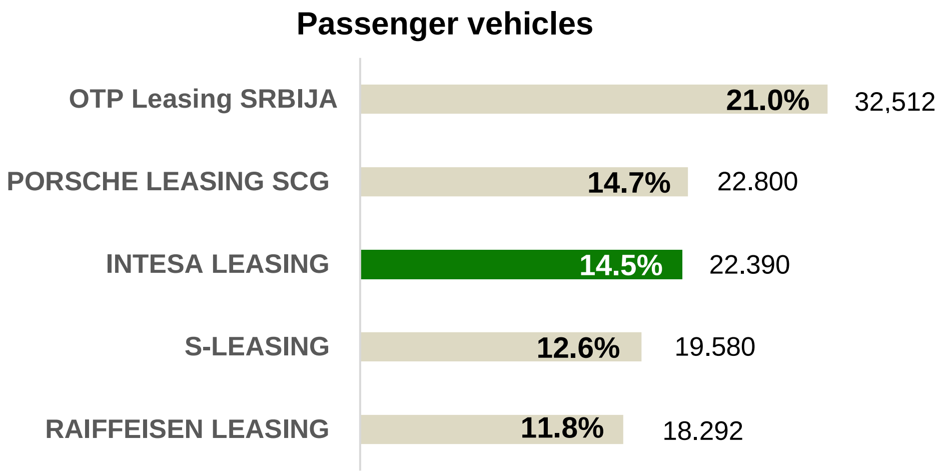


TRANSLATION NOTE: This is a translation of the original document issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation,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

2. COMPANY'S OPERATIONS (continued)

2.2 Market share (continued)





In 2020, the Company also made progress in its market share by equipment groups. In the segment of commercial vehicles, the Company made progress from fourth place in the first quarter of 2020 to first place at the end of the year. In the equipment segment, the Company also made progress compared to the first quarter of 2020, when it took third place, while at the end of the year it reached first place. This achievement was significantly influenced by the program of subsidies by the state for the purchase of equipment, where the state subsidized part of the value of the lease agreement, while the rest was financed by Intesa Leasing.

In the segment of passenger vehicles, at the end of 2020, the Company also advanced in relation to the first quarter from fifth to third place. This progress was preceded by the conclusion of business cooperation with Mercedes in early 2020. This program involves subsidizing part of the interest on financial leasing by Mercedes, while the Company pays a commission to Mercedes for each vehicle sold through its dealers.

The realized average contracted interest rates on new loans in EUR amounted to 3.1% in 2020, an increase compared to last year.

2. COMPANY'S OPERATIONS (continued)

2.2. Financial position

At the end of 2020 the Company's total on-balance assets amounted to RSD 21,824,429 thousand. Compared to previous year, when they amounted to RSD 15,954,285 thousand, there was a significant increase in balance sheet assets of 36.8% (RSD 5,870,144 thousand).

At the end of 2020, leasing placements amounted to RSD 17,373,979 thousand and are above the previous year's level of placements (RSD 14,885,212 thousand) by 16.7 % (RSD 2,488,767 thousand).

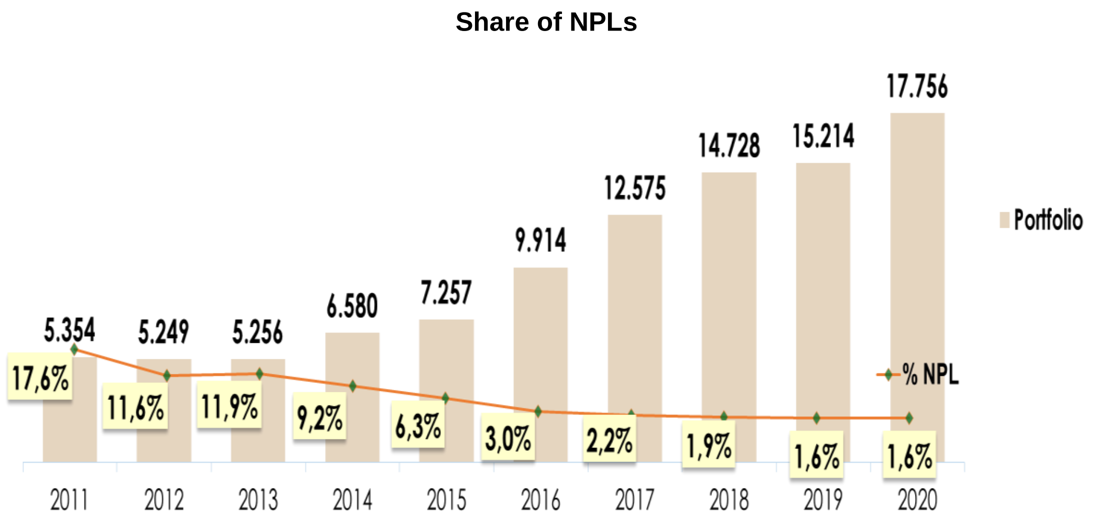
Average interest rate realized on assets in 2020 amounted to 2.94%, which is below last year's average (3.37%), while interest on liabilities amounted to 0.99% (1.045%).

The Company has significantly improved the quality of its portfolio over the years. In 2020 the level of non-performing placements was reduced last year to the lowest level historically since start of operation, while in 2020 it was maintained at the same level.

Indicators of the quality of portfolio at the end of 2020 are as follows:

- Share of NPLs in total leasing exposure is constantly falling and at the end of 2020 amounted to 1.6%. At the end of 2019 share of NPLs in total leasing exposure amounted to 1.6%;
- coverage ratio amounted to 1.89%. At the end of previous year, it amounted to 1.9%; and
- NPLs provision coverage ratio amounted to 75.86%. At the end of previous year, it amounted to 88.8%.

Figure 9. Share of NPLs in total value of placements
(gross long-term receivables in millions RSD)



2. COMPANY'S OPERATIONS (continued)

2.3. Result of business activities

At the end of the year the Company realized a profit in the amount of RSD 106,679 thousand, which is below last year's profit level (RSD 194,679 thousand) by RSD 88,000 thousand or 45.2%, but still above the budget by RSD 858 thousand or 0.8%. The decline in profit was caused by significantly higher provisioning costs in 2020, compared to the previous year, by RSD 92,994 thousand and lower operating margins by RSD 19,125 thousand. Also, interest expenses exceed the budgeted amount due to unplanned withdrawals of credit lines from Banca Intesa due to the moratorium, higher new production than planned, as well as delays in withdrawal of credit lines from foreign creditors, EIB and EBRD, whose withdrawal was scheduled for September 2020.

Due to the Covid 19 pandemic, the Government of the Republic of Serbia adopted measures to ease the repayment of debts, i.e. a moratorium. In 2020, there were 3 moratoriums. Moratoriums 1 and 2 were successfully implemented in full during 2020. Moratorium 3 is still in effect. The delay in lease payments led to lower profits due to the fact that new production increased sharply, but because of lower inflows cash receipts the Company had to borrow at higher interest rates in order to finance new leasing items without interruption. Provisioning costs increased significantly compared to previous year.

The Company recorded an increase in operating costs, shown by Cost/Income ratio. This ratio amounted to 49.4% for 2020, compared to 46.3% in 2019.

Compared to the end of 2019, the number of employees has not changed. As at 31 December 2020 the Company had 43 employees.

2.4. Internal audit

During 2020 two internal audits were conducted, in accordance with the internal audit plan of the Company in the following organizational units of the Company: Legal and General Affairs Office, Department for Credit Analysis, Product Management and Sales Department and Finance, Planning and Operation Department. Internal audit was conducted in the areas of: Approval of leasing placements and related processes, Prevention of money laundering and Financial risks within the audit of Banca Intesa.

Residual risk was assessed as "medium", because the internal control system was assessed as "requiring improvement".

Unsolved recommendations of internal audit will be implemented in accordance with plan activities by the end of June 2021.

2.5. Tax Audit

During 2020 there were no tax audits of the Company by the Tax Administration of the Republic of Serbia.

3. ENVIRONMENTAL PROTECTION

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

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

The Procedure is being applied to the management of environmental risks related to the clients' (legal entities or entrepreneurs) activities financed by the Company when approving new finance leasing contracts. If the request for financing relates to financing the activities from the List of activities that the Company does not support, the Company rejects such financing requests.

4. SUBSEQUENT EVENTS

There have been no significant subsequent events which would require disclosures in the Notes to the accompanying financial statements or Annual report of the Company as of and for the year ended 31 December 2020.

5. PLANNED FUTURE DEVELOPMENT

Intesa Leasing d.o.o Beograd has adopted its Business plan for period 2018 - 2021 which emphasizes following strategic directions and development goals:

- to be the most successful leasing company operating in the Serbian leasing market which operates profitably and sustainably;
- to increase financing of small and medium enterprises during the period 2018 - 2021;
- further development of real estate financing, with focus on the best locations and best clients;
- more favorable credit lines and achieving lower financing costs leading to better position regarding the terms of new placements approval and making the possibility for further improvement of the portfolio quality;
- obtaining new credit line from international financial institutions and funds, as important step for realization of strategic goals;
- increasing business success and reducing the Cost / Income ratio, through an increase in operating income and a steady increase in business efficiency and a reduction in administrative and overhead costs; and
- increase in operating efficiency and improvement and automatization of business processes.

6. RESEARCH AND DEVELOPMENT ACTIVITIES

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

Within BPM module the following tools have been developed:

- **Portal for individuals** as a way of improving sales activities in the population segment. The development of this tool will improve operating efficiency and the possibility of individuals to make a request for financing from their home and to get an approval immediately. In the previous period, the Portal could be used for approving requests to legal entities or entrepreneurs.
- **Profitability calculation Phase II** implies the calculation of profitability at the level of the entire portfolio. The aim of profitability calculation phase II is to provide data by which can be created net operating margin reports for Company's placements. The creation of a database was the first phase in this project and as a result, it provides reports of profitability. This database involves placements data at the level of the financial leasing contract, created from recorded revenues and expenses. Income and expenses are divided into 3 parts: interest income and expenses, fee and commission income and expenses, impairment income and expenses. Based on the prepared monthly databases, profitability reports are created according to selected criteria such as period, contract, advisor, lessee, leased asset, index.
- **AML process**: this process has been upgraded in accordance with the recommendations of the National Bank of Serbia. By implementing the upgrade of this process, all the recommendations of the National Bank of Serbia have been met.
- The **Cosme guarantee** is a new product of the Company in cooperation with the EIF, which was implemented in 2020. The Cosme guarantee is a guarantee with which a new financing product has been created with a 0% share for equipment and commercial vehicles.
- **Mercedes subsidy** - In 2020, the Company entered into a Business Cooperation Agreement with Mercedes and its dealers. Star Import, through its sales staff and dealer network, directs potential buyers to Intesa Leasing for the purpose of purchasing passenger vehicles on a finance lease. For the purposes of this program, the Company has developed a tool available in dealer offices which offers them access to an appropriate leasing calculator and financing conditions. In addition to this program, a special cooperation program was developed where the Company offered potential buyers to purchase new Mercedes vehicles under special conditions, while Star Import subsidized interest in the amount of 2% of the gross value of the vehicle.

In the BPM module, the development of new tools started:

- **Authorization for registration** implies the process of automating the issuance of these authorizations aimed at accelerating the process of issuing these documents and saving time both sales assistants and clients whose work often depends precisely on this authority.
- **Taxi subsidy** is one of the new programs of the Government of the Republic of Serbia where the state subsidizes part of the value of the purchase of vehicles on a lease. The company had to create a special type of contract in order to comply with the conditions adopted by the Government.
- **Digital signatures** are a continuation and upgrade of the process that was developed and is widely used internally in signing credit committee decisions. The goal of the development of this process is to enable digital signing of the entire contract documentation, which would significantly speed up the process of registering and deregistering contracts in the leasing register kept by the Business Registers Agency. The goal is to enable a simpler and faster flow of documentation digitally between Intesa Leasing and stakeholders.

7. PURCHASE OF TREASURY STAKES

The Company did not purchase any of its treasury stakes during 2020.

8. BRANCHES

The Company had one registered branch in 2020 in Novi Sad.

9. FINANCIAL INSTRUMENTS

During 2020, the Company used securities, i.e. long-term government bonds of the Republic of Serbia. The market value of these financial instruments on 31 December 2020 amounted to RSD 750,702 thousand. In 2020 the Company invested in the investment fund of its related party Intesa Invest. The market value of these investment units on 31 December 2020 amounted to RSD 210,885 thousand.

10. FINANCIAL RISK MANAGEMENT

Risk is an integral part of business operations of the Company and it is impossible to eliminate it completely. The Company manages risks in a way to reduce them to limits acceptable for its stakeholders: equity owners, lessor, lessee, regulator body.

Risk management is a process of continuous identification, estimation, measurement, monitoring and controlling the exposure of the Company to the risks. Important part of the risk management process is reporting and risk mitigation. Adequate system of risk management is important element in achieving stability of the Company and the profitability of its operations.

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

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

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

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

The Company’s Managing Board analyses and adopts the proposals of policies and procedures with respect to risk management and internal controls, which are submitted to the Managing Board for consideration and adoption. Also, the Board analyses and supervises the implementation and adequate realization of adopted risk management policies and procedures and if necessary suggests manners for their improvement.

10. FINANCIAL RISK MANAGEMENT (Continued)

The Company has developed a comprehensive risk management system by introducing policies and procedures, as well as by establishing limits for risk levels acceptable to the Company. Specific risks, such as foreign exchange rate risk, the Company monitors on a daily basis, while for other risks monthly reports are being prepared.

On April 2, 2019, the Board of Directors adopted the Decision on Adoption of Limits defining the Company's Risk Limits (RAF Limits) in order to further harmonize with the rules for managing the risks of the parent bank (Banca Intesa ad Beograd) in accordance with the regulations, standards and rules of the profession. Limits of capital adequacy, liquidity, exposure to operational risk (so-called "top of the house limits") and specific limits of credit risk/concentration risk, foreign exchange and interest rate risk have been established.

/i/ Credit risk

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

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

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

	2020	Participation in the total net receivables	2019	Participation in the total net receivables
Performing	17,474,728	98.42%	14,977,575	98.44%
Past Due	16,380	0.09%	6,797	0.05%
Unlikely to Pay	27,491	0.15%	10,710	0.07%
Doubtful	237,455	1.34%	219,408	1.44%
Total	**17,756,054**	**100.00%**	**15,214,490**	**100.00%**

As we can see, for both years under review, the share of NPLs is at a low level, amounting to 1.58% and 1.56% for 2020 and 2019 respectively.

Through continuous monitoring of this risk, the Company successfully decreased NPLs share in 2020 comparing to previous years. Credit risk has the satisfactory level regarding the prescribed limits.

/ii/ Liquidity risk

Liquidity risk is the risk that the Company would not be able to settle its liabilities when they fall due.

The Company's liquidity depends primarily on maturity matching of assets and liabilities, i.e. matching of cash inflows and cash outflows.

10. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk can be presented through the following table for gross amounts of assets and liabilities and equity (in thousands RSD):

	2020			2019		
	Assets	Liabilities and equity	Cumulative gap	Assets	Liabilities and equity	Cumulative gap
Gross exposure of up to 30 days	3,413,824	456,529	2,957,295	967,741	329,813	637,928
Gross exposure of 1 to 3 months	1,138,708	889,981	3,206,022	963,173	455,182	1,145,919
Gross exposure of 3 to 6 months	1,458,138	1,303,874	3,360,286	1,240,631	1,003,943	1,382,607
Gross exposure of 6 to 12 months	2,855,498	7,386,282	(1,170,498)	2,328,111	2,270,024	1,440,694
Gross exposure of 12 to 18 months	3,090,742	2,303,781	(383,537)	2,109,652	1,667,023	1,883,323
Gross exposure of 18 months to 5 years	9,455,684	7,939,453	1,132,694	8,341,512	8,193,652	2,031,183
Gross exposure of over 5 years	523,249	194,786	1,461,157	255,429	773,659	1,512,953
Gross amount without a defined maturity	424,205	1,349,741	-	207,988	1,264,989	-
Gross exposure – total	**22,360,048**	**21,824,427**	**535,621**	**16,414,237**	**15,958,285**	**459,952**

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

/iii/ Interest rate risk

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

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

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

The calculated repricing gap indicator shows that in the case of change of interest rate by 2.00% effect on revenues, i.e. expenses of the Company in 2020 would be RSD 40,227 thousand, which is within the limit prescribed by the Procedure for interest rate risk management.

/iv/ 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.

10. FINANCIAL RISK MANAGEMENT (Continued)

On 31 December 2020 the Company had a position in the amount of RSD 33,135 thousand, which is 2.39% of the Company's equity. Foreign exchange risk is within the determined limit of EUR 800,000 converted by the average exchange rate of NBS on the reporting date.

/v/ Operational Risk

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

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 2020 operational risks were traced through the "BIBOp" application. Tracing and recording of identified events that cause the Company's operational risks is performed by operational risk monitoring coordinators.

Data input is performed in real time, meaning that an event can be traced right after it has been identified. Coordinators record the event not later than 48 hours after it has been identified. The event can be recorded as a draft version, and during that time coordinators have access to the document. When all available data on the event are entered in the application, it becomes visible to the verifier whose job is to recheck the data about the event and to approve them. The event also needs to be approved within 48 hours.

During 2020 there were five operational risk cases and they can be shown in the following table:

Type of operational risk	Number of cases	Potential damage in EUR
Other fraud	1	75,857
Natural disaster	1	587
Inadequate business practice	3	5,164
Total	**5**	**81,608**

The type of Other fraud refers to the case of a sale & lease back transaction in which a partner was approved financing of a higher value based on the documentation submitted in relation to the value of the item, as determined by a subsequent valuation by a certified appraiser. The realization of the contract was prevented. This prevented fraud and potential loss to the ILB in the entire amount because such equipment in case of repossession could not be sold at the invoiced amount, and probably not at the appraised value, so the contract was not realized.

10. FINANCIAL RISK MANAGEMENT (Continued)

The planned corrective activity is that for each type of equipment where the domestic supplier is also the manufacturer, a future assessment of the market value is performed, even though new equipment is involved. For this type of equipment, there is already a User's Guide for attending the handover, monitoring of leased asset, collateral audit. The billing department is charged with consistently applying the user manual.

General estimate of the Company's risk exposure for 2020 is that all risk indicators are within defined limits suggesting they are very efficient in managing the Company, as confirmed by the overall results of the Company.

Belgrade, 22 February 2021

Report prepared by	Legal Representative
Predrag Topalović	Nebojša Janićijević