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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 2019;

and, for the period from 1 January to 31 December 2019:

- 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 of the Company give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the financial year then ended in accordance with the accounting regulations effective in the Republic of Serbia and by-laws which regulate financial reporting of financial leasing companies in the Republic of Serbia.

Basis for Opinion

We conducted our audit in accordance with the Law on Auditing 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 the International Ethics Standards Board for Accountants 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 2019.

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, is consistent with the financial statements.

In addition, if, based on the work we performed, we conclude that there is a material misstatement in the other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility 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 by-laws which regulate financial reporting of financial leasing companies 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.

Auditor's Responsibility 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 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 on the audit of the financial statements 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 on the audit of the financial statements. 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
Certified Auditor

Beograd, 6 March 2020

*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



Nikola Đenić
Certified Auditor



Belgrade, 6 March 2020

BALANCE SHEET FOR THE YEAR ENDED AS AT 31 DECEMBER

In thousands of RSD	Notes	2019 Closing balance	2018 Closing balance
ASSETS			
Cash	15	176,388	256,656
Financial placements held with banks	16	-	675,337
Other financial placements and derivatives	17	760,088	603,425
Receivables from finance lease activities	18	14,885,212	14,329,762
Repossessed leased assets and inventories	19	28,793	154,418
Intangible assets	20	21,585	18,957
Property, plant and equipment	21	19,096	4,309
Deferred tax assets	14	3,709	4,309
Other assets	22	59,414	84,593
TOTAL ASSETS		15,954,285	16,131,766
EQUITY AND LIABILITIES			
LIABILITIES			
Borrowings from banks and other financial institutions	23	14,553,406	14,866,941
Other financial liabilities and derivatives		16,382	-
Provisions	24	18,786	5,282
Current tax liabilities		4,052	18,100
Other liabilities	25	73,988	175,209
TOTAL LIABILITIES		14,666,614	15,065,532
EQUITY			
Stake capital	26	960,374	960,374
Reserves, revaluation reserves and unrealized gains	27	132,618	2,492
Retained earnings	28	194,679	103,368
TOTAL EQUITY		1,287,671	1,066,234
TOTAL LIABILITIES AND EQUITY		15,954,285	16,131,766

Belgrade, 28 February 2020

Legal representative:

INCOME STATEMENT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER

In thousands of RSD	Notes	2019	2018
INCOME AND EXPENSES FROM OPERATING ACTIVITIES			
Interest income	5	460,080	475,414
Interest expenses	5	(176,497)	(151,221)
Net interest income		283,583	324,193
Fee and commission income	6	145,357	114,490
Fee and commission expenses	6	(55,491)	(53,864)
Net fee and commission income		89,866	60,626
Net foreign exchange losses and net gains from foreign exchange clause	7	(542)	(225)
Other operating income	8	33,502	40,750
Net impairment gains on finance lease receivables and financial assets	9	44,239	23,519
Net losses from changes in value of repossessed leased assets	10	(11,440)	(48,202)
OPERATING PROFIT		439,208	400,661
Costs of salaries, benefits and other personal expenses	11	(114,012)	(106,754)
Depreciation and amortization	12	(14,804)	(6,403)
Other expenses	13	(75,041)	(65,118)
PROFIT BEFORE TAX		235,351	222,386
Current tax expense	14	(40,072)	(47,182)
Deferred tax income	14	-	1,913
Deferred tax expense		(600)	-
PROFIT FOR THE PERIOD		194,679	177,117

Belgrade, 28 February 2020

Legal representative:

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

In thousands of RSD	Notes	2019	2018
PROFIT FOR THE PERIOD		194,679	177,117
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		26,758	(7,061)
TOTAL POSITIVE / (NEGATIVE) OTHER COMPREHENSIVE INCOME FOR THE PERIOD		26,758	(7,061)
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD		221,437	170,056

Belgrade, 28 February 2020

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 2018	960,374	-	9,553	27,548	997,475
Adjustment for material errors and changes in accounting policies in the previous year - decrease	-	-		(15,297)	(15,297)
Adjusted opening balance as at 1 January 2018	960,374	-	9,553	12,251	982,178
Other comprehensive income for the period	-	-	(7,061)	-	(7,061)
Profit for the period	-	-		177,117	177,117
Dividend payment	-	-		(86,000)	(86,000)
Balance as at 31 December 2018	960,374	-	2,492	103,368	1,066,234
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

Belgrade, 28 February 2020

Legal representative:

CASH FLOW STATEMENT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER

In thousands of RSD	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	9,824,561	9,516,394
Receipts from finance lease placements	7,969,852	7,252,576
Receipts and advances received from finance lease activities	1,816,399	2,207,636
Receipts from rent and sales and other advances received	-	-
Other receipts from operating activities	38,310	56,182
Cash outflow from operating activities	(9,953,293)	(11,155,179)
Payment of liabilities and advance payments related to finance lease activities	(9,607,345)	(10,854,523)
Other payments and advances paid	(106,423)	(93,673)
Salaries, fringe benefits and other personal expenses paid	(114,549)	(111,030)
Income tax paid	(54,121)	(41,380)
Payments for other public charges	(69,759)	(53,717)
Other payments from operating activities	(1,096)	(856)
Net cash flows from operating activities	(128,732)	(1,638,785)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	679,393	29,935
Other inflows from investing activities	672,435	-
Interest received from investing activities	6,958	29,935
Cash outflow from investing activities	(124,303)	(810,261)
Purchase of intangible assets, property, plant, equipment and other assets	(15,499)	(16,259)
Purchase of financial instruments	(108,804)	(119,600)
Other financial placements	-	(674,402)
Net cash flows from investing activities	555,090	(780,326)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflow from financing activities	5,314,001	8,200,506
Increase in borrowings	5,314,001	8,200,506
Cash outflow from financing activities	(5,821,077)	(5,661,929)
Decrease in borrowings	(5,566,339)	(5,376,448)
Dividends paid	(86,000)	(140,000)
Other payments from financial activities	(168,738)	(145,481)
Net cash flows from financing activities	(507,076)	2,538,577
TOTAL CASH INFLOW	15,817,955	17,746,835
TOTAL CASH OUTFLOW	(15,898,673)	(17,627,369)
NET CASH INFLOW	-	119,466
NET CASH OUTFLOW	(80,718)	-
Cash and cash equivalents at the beginning of period	258,284	139,066
Exchange rate gains on cash translation	45	629
Exchange rate losses on cash translation	(1,223)	(877)
Cash and cash equivalents at the end of period	176,388	258,284

Belgrade, 28 February 2020

 Legal representative:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

INTESA LEASING d.o.o. BEOGRAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR 2019**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

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Amounts stated in RSD thousand, unless indicated otherwise

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, 31/2001 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, decreased to 1.3%.

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

The Company 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

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

The Company operates as a subsidiary of Banca Intesa a.d. Belgrade. The ultimate owner, Intesa Sanpaolo 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. 62/2013), the Company is classified as a large-sized legal entity.

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

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

As at 31 December 2019 the Company had 43 employees (31 December 2018: 42 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (Continued)**2.1. Basis of Preparation and Presentation of the Financial Statements (Continued)**

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 Standards (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 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 this standard voluntarily from the date on which it comes into force, on January 1, 2019, although it has not been translated into Serbian or published in the Republic of Serbia.

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. 87/2014 and 135/2014).

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 statement cannot be considered financial statements prepared fully according to IFRS in the way that provisions of IAS 1 "Presentation of Financial Statements" require.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (Continued)**2.1. Basis of Preparation and Presentation of the Financial Statements (Continued)**

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

The accompanying financial statements of the Company for 2019 are approved for publishing by the Chairman of the Executive Board on 28 February 2020.

2.2. Comparative data

Comparative data comprise the annual financial statements of the Company for 2018, 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 2018, except for the voluntary application of IFRS 16 Leasing. For the purpose of better presentation in certain segments the Company restated comparative information.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

*Amounts stated in RSD thousand, unless indicated otherwise***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.1. Income and Expense Recognition (Continued)**

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.

3.2. Foreign Currency Translation

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

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

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

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

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

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

<u>Currency</u>	In RSD	
	31 December 2019	31 December 2018
CHF	108.4004	104.9779
EUR	117.5928	118.1946

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.2. Foreign Currency Translation**

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

Investments and liabilities related to basic contracts which are tied to a foreign currency (foreign currency clause) or another variable, are revalued in accordance with contractual clauses. Income and expenses resulting from the application of foreign currency clause are recorded as Net foreign exchange gains/losses and net gains/losses from foreign exchange clause.

During 2019, the Company has the contractual exchange rates for the translation of receivables from finance lease activities.

3.3. Cash

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

A financial asset is measured at amortized cost unless designated as measured at fair value 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
- 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.

3.4. Financial placements held with banks

Financial placements held with banks comprise:

- foreign currency accounts
- term deposits with banks.

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

A financial asset is measured at amortized cost unless designated as measured at fair value 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
- contractual terms of a financial asset lead to cash flows that represent only principal payments and interest on the principal balance on specified dates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.4. Financial placements held with banks**

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.

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
- The contractual terms of a financial asset lead to cash flows that represent only principal payments and interest on the equity 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).

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

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

3.6. Receivables from finance lease activities

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.6. Receivables from finance lease activities (Continued)**

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

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,
- 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.

3.7. 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 value 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.7. Impairment of Financial Assets (Continued)**

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

The main objective of the IFRS 9 impairment requirements is to provide users of financial statements with more useful information on expected credit losses on financial instruments measured at amortized cost or at fair value through other comprehensive results (debt instruments). These requirements are based on models of expected credit losses related to financial assets.

Impairment is calculated on one of the following grounds:

- 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 Losses - The aforementioned 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 characteristics of the principles of IFRS 9 *Financial Instruments* can be presented as follows:

- detailed classification of the portfolio which is not impaired in two levels (Level 1 and Level 2) according to a defined set of criteria
- inclusion of macroeconomic conditions in the PD / LGD, in order to consider the expected changes in the macroeconomic environment that may arise in the coming years in relation to the reporting date
- introduction of the new concept Lifetime Expected Loss - the expected loss when a significant credit risk deterioration of the financial instrument is recognized (Level 2). Lifetime Expected Loss The loss calculation covers the entire remaining exposure of a transaction.

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 criteria for the classification of the debtor's delay in settlement of obligations. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

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 of the assessment of leasing users that are in line with the definition of leasing users as truly insolvent.
- 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 (delay longer than 90 days), 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 amount of matured debt exceeds 1% of the total debt on the day of the booking account.

B) Performing Receivables

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

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

- Stage 1
- Stage 2
- 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

*Amounts stated in RSD thousand, unless indicated otherwise***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
<ul style="list-style-type: none"> • Perform exposure without delay • Performing exposure with more than 30 days delay but below the materiality threshold (set to 1%) 	<ul style="list-style-type: none"> • Performing exposure with more than 30 days of delay over the materiality threshold (set at 1%) • Restructured performing exposure • Performing exposures with early warning signs - clients with status of early warning signs • Performing exposures with a significant increase in PD from the moment of initial recognition. Material increase in PD depends on the client's segment and class rating 	<ul style="list-style-type: none"> • Exposures with more than 90 days of delay beyond the materiality threshold (set to 1%) • Unlikely to Pay • Doubtful

Impairment is calculated on the basis of an internal model, and impairment expenses/(income from deduction) are charged or credited in the income statement. Allowances for potential losses include:

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

The correction of asset value for clients that are not subject to individual assessment is calculated depending on the Stage of impairment is the classification classified (Stage 1, 2 or 3) according to the 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 products that are amortized and for which repayment schedules are available, future EAD's are calculated based on the repayment schedule.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.7. Impairment of Financial Assets (Continued)**

In EAD for 11 finance lease agreements the Company had transfers from Stage 3 to Stage 2 or Stage 1, where exposure of these agreements amounted to RSD 21,373 thousand.

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.

Homogenous portfolios are defined for the purpose of calculating risk parameters. Homogenous portfolios comprise clients who belong to the same commercial segment (for instance SME's, etc.) and the same rating and internal rating calculation model.

- For clients in non-performing Stage 3 PD is 100%.
- For exposures belonging to Stage 1 and referring to clients with calculated internal rating, the corresponding PD parameter value is assumed depending on the rating and the segment.
- For exposures belonging to Stage 2 and referring to clients with calculated internal rating, the corresponding PD parameter value is taken depending on rating, segment and maturity.
- For exposures to clients who do not have a rating on the reporting date and belong to segments covered by the PD model, the default rate is determined based on the central tendency from the model, and then the clients are assigned the first conservative rating closest to the received value. After that, in accordance with the rating obtained, exposures are assigned the appropriate PD parameter (Lifetime PD or 12-month PD) depending on the Stage to which the exposure belongs (Stage 1 or Stage 2).
- For client exposures belonging to segments that are not covered by a PD model, the PD is determined on the basis of historical default rate of a particular segment, which are further adjusted for projection of macroeconomic impact using appropriate macroeconomic coefficients for different scenarios.
- For exposures related to the members of the Intesa Sanpaolo group, the PD is defined by the document Regulation for Calculating the Probability of Loss for the remaining period of the financial instrument.
- For exposures belonging to the segments of the Bank, the State, the Central Bank and the Local Self-Government, the PD values defined by the document Regulation for Calculating the Probability of Loss for the remaining period of the financial instrument are applied.

The LGD parameter is accounted by the Risk Management Department of Banca Intesa a.d. Belgrade based on analysis of historical data, separately for homogeneous portfolio segments.

The LGD is determined separately for receivables (part of receivables) covered by collateral and receivables uncovered by collateral.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.7. Impairment of Financial Assets (Continued)**

When calculating impairment due to credit loss, they are applied to the EAD (Exposure at Default) by gross earnings deducted by the amount:

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

The impairment of the base can be further adjusted in cases where the Company has a more precise assessment of the market value of individual leasing items.

The level of impairment of finance lease receivables is determined on the basis of the projection of the expected cash flows that will be collected on the basis of a contract with the client, taking into consideration a new assessment of the client's financial standing and creditworthiness, collateral values, timeframes required for collateral realization, and more. Different scenarios (weighted by probability) for the estimated future cash flows have been introduced to calculate expected credit losses, with additional correction taking into account the estimated macroeconomic effect (add-on).

Existing PD models (Basel II) harmonized with IFRS 9 requirements were used for calculating lifetime PD parameters:

- change from Through the Cycle (TTC) to Point in Time (PIT) concept,
- introduction of coefficients (as PD adjustments) that reflect the macroeconomic impact on future period parameter, using three scenarios (most likely, most favorable, unfavorable),
- “lifetime” projections (using the Markov approach).

For segments that are not covered by PD models, the appropriate historic default rate is used as a PD approximation, with additional adjustments (mentioned above).

For clients/receivables that are subject to group assessment, the Loss Given Default (LGD) parameter is calculated based on average historic loss rates for defined segments, where resultant values are adjusted with coefficients that represent measures of estimated macroeconomic effects of LGD's of future periods. Three scenarios (most likely, most favorable, unfavorable) are used for the said macroeconomic adjustment of parameters. Discounting of such LGD's is performed using the effective interest rate of an individual lease agreement.

The Company also includes forward-looking information in estimating significant credit risk increases since initial recognition and in measuring expected credit losses.

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For the year ended 31 December 2019

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.7. Impairment of Financial Assets (Continued)**

Forward-looking information is included by adjusting PD and LGD parameters to reflect expected changes in their values resulting from the macroeconomic environment which could occur in future years. Macroeconomic PD adjustments are performed using stress coefficients generated from an internally developed PD stress test model based on a regression equation that quantifies the link between credit portfolio deterioration (changes in PD's) and changes in macroeconomic variables or variables that are identified as relevant for conditions in which the Company operates. The model prioritizes variables with the highest impact on credit rating (each macro variable impacts credit risk to a different degree and a different time horizon). The PD stress model was specially developed for the corporate and retail client segments. 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 methodologies of the Intesa SanPaolo Group written for this purpose). Forward-looking elements were calculated for next 2 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 actual values of coefficients, received from Intesa SaoPaolo, are derived from the EBA stress text exercise carried out in 2018.

Implemented PD's for the purpose of calculation of provisions for credit losses were generated as the linear combination of PD changes for the normal, stress and best case scenarios. In all three scenarios the value of the change in the spot PD is arrived at based on the PD satellite stress test model which establishes the linear connection between the change in the logarithm of the PD rate and the change in specific macroeconomic parameters that are recognized as statistically and economically relevant. In the event of change in the PD rate for the corporate portfolio, macroeconomic variables that are recognized as relevant include changes in exchange rates, changes in the local key policy interest rate, changes in real salaries. In the event of change in the PD rate for the retail portfolio, macroeconomic variables that are recognized as relevant include changes in exchange rates, changes in market interest rates for the euro, changes in real salaries and NPL rates in the corporate sector (variable assessed using the corporate model). Given that macroeconomic variables are in their nature non-stationary, their mathematical transformations are used in the actual regressions (most often the rate of return calculated using a natural logarithm). Besides this, a change in a particular macroeconomic variable does not have a momentary effect on credit risk and on PD, where the PD stress test satellite model takes into account such a delayed effect. Thus it was determined that the greatest effect on future PD projections are changes in macroeconomic variables that occurred in previous quarters. To what extent each variable will affect changes in PD rates is defined by assessment of regression parameters.

Values of macroeconomic parameters in a stress (worst case) and best case scenarios arrived at are 0.1 and 99.9, respectively, as percentiles of historic distributions of their values over the last 10 years (or shorter, if the parameter series is not available), while values for the normal scenario were taken from the Department for Economic Research.

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For the year ended 31 December 2019

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Impairment of Financial Assets (Continued)

Values used for the mentioned cases are:

Industry

<u>2019</u>	<u>Foreign exchange rate</u>	<u>Key policy rate</u>	<u>Real salary</u>
Base scenario	0.25%	0.5	2.62%
Worst case scenario	18.49%	8.47	-0.19%
Best case scenario	-6.93%	-1.55	8.58%

<u>2020</u>	<u>Foreign exchange rate</u>	<u>Key policy rate</u>	<u>Real salary</u>
Base scenario	0.25%	0.5	2.12%
Worst case scenario	-3.09%	-1.22	1.34%
Best case scenario	2.23%	-0.31	11.20%

<u>2021</u>	<u>Foreign exchange rate</u>	<u>Key policy rate</u>	<u>Real salary</u>
Base scenario	0.42%	0.75	1.97%
Worst case scenario	8.76%	0.5	3.63%
Best case scenario	0.71%	-0.13	7.55%

Households

<u>2019</u>	<u>Foreign exchange rate</u>	<u>Industry NPL</u>	<u>Real salary</u>	<u>Euribor 6m</u>
Base scenario	0.25%	-0.16	2.62%	-0.18
Worst case scenario	18.49%	1.59	-0.19%	0.75
Best case scenario	-6.93%	-0.72	8.58%	-1.71

<u>2020</u>	<u>Foreign exchange rate</u>	<u>Industry NPL</u>	<u>Real salary</u>	<u>Euribor 6m</u>
Base scenario	0.25%	0.15	2.12%	0.3
Worst case scenario	-3.09%	2.96	1.34%	0.79
Best case scenario	2.23%	-1.39	11.20%	-1.49

<u>2021</u>	<u>Foreign exchange rate</u>	<u>Industry NPL</u>	<u>Real salary</u>	<u>Euribor 6m</u>
Base scenario	0.42%	0.19	1.97%	0.71
Worst case scenario	8.76%	0.01	3.63%	-0.2
Best case scenario	0.71%	-0.53	7.55%	-1.6

Based on coefficients generated from the internal PD stress model macroeconomic conditioning of PD values is performed, which are used in the calculation of ECL's for the next 3 years remaining to maturity after reporting date, where all values in the Base scenario are further adjusted for an add-on that takes into account all three scenarios.

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For the year ended 31 December 2019

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.7. Impairment of Financial Assets (Continued)**

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.

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).

Based on Group instructions, in 2019 the Company changed its method of calculation of lessee default. Default is no longer measured for each lease contract per lessee, and instead default events are used which represent cumulative default per lessee. A lessee can erase default through payment of all matured receivables, and in case when an unmatured unsettled receivable is below materiality.

Stage 3 placements are ones for which there is objective evidence of impairment or subjective evidence of existence of default status. Objective evidence of default is continued default lasting over 90 days in a materially significant amount. The calculation of materially significant default is established at client level in accordance with item 10 of the Guidelines for the Identification of Default of the National Bank of Serbia. The relative materiality threshold is 1% of total balance sheet assets, while the absolute threshold differs depending on the exposure class under which the exposure is classified (1,000 dinars for debtors from the retail exposure class, and 10,000 dinars for other debtors). Subjective evidence of default status is the Company's assessment that the client will not be able to settle liabilities toward the Company in full, without taking into account activation of collateral. Subjective assessment of default status is based on quantitative and qualitative criteria, and on internally and externally generated information about the debtor.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.7. Impairment of Financial Assets (Continued)**

Besides the change in default calculation which is in use from November 2019, the Company also applied in 2019 other rules (based on guidelines provided by Intesa SanPaolo) arising from the new status of default defined in the National Bank of Serbia's Guidelines and appropriate EBA regulations („Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013“), where the most significant change is the introduction of the Trial period which cannot be shorter than 90 days for receivables in default for which the criteria that brought the client into such status are no longer effective.

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 Managing Board 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 Managing Board is charged with approval of write-offs of receivables above EUR 10,000.

3.8. Repossessed leased assets and inventories**a) Repossessed leased assets**

Off-balance sheet exposure for receivables that were derecognized in 2019 amounted to RSD 4,816 thousand, although these are still the subject of collection. Receivables derecognized in 2019 include receivables for damages following the sale of repossessed lease 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 the value of non-matured part of financial investment at the moment of termination (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).

NOTES TO THE FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.8. Repossessed leased assets and inventories (Continued)****a) Repossessed leased assets (Continued)**

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

b) Inventories

Inventories of the Company comprise:

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

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

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 2019, 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 2019 comprise equipment. The equipment is initially recognized at cost on the day of transaction. After initial recognition equipment is stated at cost, less total accumulated depreciation and any accumulated impairment losses. Purchase value is consist of the invoiced value plus all expenses incurred to bringing the asset to the proper state and location.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

*Amounts stated in RSD thousand, unless indicated otherwise***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.10. Property, Plant and Equipment (Continued)**

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

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

Annual depreciation rates in use are as follows:

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

The estimated useful life of assets is reviewed periodically and adjusted if necessary at each reporting date. Changes in expected useful lives of assets are accounted for as changes in accounting estimates. During 2019 there were no changes in depreciation rates comparing to the previous period.

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 and 113/2017) and the Rules on the Manner of Fixed Assets Classification into Groups and Depreciation for Tax Purposes ("RS Official Gazette". no. 116/2004, 99/2010 and 93/19). Different depreciation methods used for financial reporting purposes and for tax purposes give 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.11 Lease assets (Continued)**

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.

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;
- 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.11. Lease assets (Continued)**

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

Lease modification

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.

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.
- 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.

First time adoption of IFRS 16

The Company adopted IFRS 16 *Leases* for the first time starting on 1 January 2019 by using a modified retrospective approach, in particular the option according to which the value of right-of-use assets is equal to the lease liability, and accordingly there are no effects of first time adoption of the standard within retained earnings as at 1 January 2019, nor are there any changes in comparative data and comparative period disclosures that are presented in accordance with IAS 17.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

*Amounts stated in RSD thousand, unless indicated otherwise***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.11. Lease assets (Continued)**

In the first time adoption of IFRS 16 the Company only applied IFRS 16 to contracts that were identified as leases according to the previous IAS 17 standard.

Company as lessee

As a lessee the Company has lease contracts for commercial premises and automobiles. The lease terms for its lease contracts range between two to five years, with the option to renew contracts upon expiry.

This lease as at 31 December 2018 was classified as an operating lease based on IAS 17, based on the assessment whether the lease substantially transfers all risks and rewards of ownership over an asset taken on lease by the Company. Starting as of 1 January 2019 and the adoption of IFRS 16, the Company recognizes the right-of-use asset and the corresponding lease liability in order to account for leases for commercial premises and automobiles in its balance sheet.

During first time adoption of IFRS 16 a lease liability is recognized at the present value of remaining lease payments, discounted using the Company's incremental borrowing rate as at 1 January 2019, as disclosed in the tables below.

The company used expedients permitted by IFRS 16 and did not account for right-of-use assets and lease liabilities whose lease terms are up to 12 months as of the date of first time adoption of the said standard, as well as in the case of small value leases.

Effects of first time adoption of IFRS 16

The effects of first time adoption on the financial statements are presented as follows:

	In thousands of RSD 1 January 2019
Right-of-use assets under Property, plant and equipment	12,571
Lease liabilities under Other financial liabilities and derivatives	12,571
Retained earnings	-

In measuring lease liabilities for leases classified as operating leases the Company discounted lease payments using the incremental borrowing rate of 1.50% as at 1 January 2019.

	In thousands of RSD 1 January 2019
Contingent liabilities for operating leases as at 31 December 2018	12,850
Recognition of expedient for small value leases	-
Recognition of expedient for leases up to 12 months from first time adoption of IFRS 16	-
Discount	(279)
Prepaid lease liabilities as at 31 December 2018	-
Total lease liabilities recognized as at 1 January 2019	<u>12,571</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.11. Lease assets (Continued)**

Company as lessor

The Company's accounting of leases as lessor has not changed significantly compared to previous principles as defined by IAS 17 *Leases*. The Company as lessor continues to classify a lease as a finance or an operating lease.

The Company performed an impact analysis of IFRS 16 adoption as lessor and concluded that changes in finance lease contracts are not the subject of contract modification and therefore have no impact on the financial statements.

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 is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

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

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

3.13. Borrowings from Banks and Other Financial Institutions

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

After initial recognition, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.14. Provisions (Continued)**

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. 74/2014), the Company is obliged to pay to an employee severance pay in the amount of two average salaries in the Republic of Serbia, according to the latest data of the authority in charge of statistics.

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

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

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

3.15. Contingent liabilities and contingent assets

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.15. Contingent liabilities and contingent assets (Continued)**

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

3.16. 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 the payment of contributions on behalf of the employee (by the employer) and on behalf of the employer in an amount calculated by applying the legally-prescribed rates.

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

Taxes and contributions 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, as increased by actuarial gains not yet recognized (Note 3.14).

(c) Short-Term Compensated Absences

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

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

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

The Company has neither pension funds nor share-based remuneration options; consequently there are no identified obligations in that respect as of 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.17. Current Tax Liabilities***Current Income Tax*

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

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

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

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

Deferred Tax Assets

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

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

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

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period of realizing a tax deduction or when a deferred tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at or after the reporting date. Tax rate used for calculation of deferred income tax assets in 2019 is 15%, the same as the rate used in the previous year.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.17. Current Tax Liabilities (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 2019 and 2018 in Note 14.

Transfer pricing

The tax balance for 2019 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 has taxed the tax effects on the basis of the Law on Corporate Income Tax of the legal entities 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 2019 because it has not had, and in 2019 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 Disclosures

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES*Use of Estimates*

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

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

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

Impairment of financial assets

The Company 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (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 estimation

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 result 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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

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

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

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 certain that the level of expected future taxable profits is sufficient to allow unused tax credits to be used.

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

The costs of defined employee benefits payable upon termination of employment, ie retirement in accordance with the legal requirements are determined based on the actuarial valuation. Actuarial estimates include estimates of discount rates, future wage developments, mortality rates and staff fluctuations.

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

Provisions for litigation

The company is involved in a number of litigation arising from everyday business and relates to commercial and contractual issues, which are solved or considered during regular business. The Company regularly assesses the probability of negative outcomes of these issues, as well as the amounts of probable or reasonable estimates of losses.

Reasonable estimates include management judgment after considering information that includes notifications, settlements, legal sector assessments, available facts, identification of potential stakeholders, and their ability to contribute to resolution, as well as prior experience.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

Provisions for litigation (Continued)

Provision for litigation is formed when it is likely that there is an obligation whose amount can be reliably estimated by careful analysis (Note 24). The required reservation may change in the future due to new events or the receipt of new information. Contingent liabilities, as well as items that do not meet the criteria for a reservation, are disclosed, unless the probability of outflows of resources containing economic benefits is very low.

Leases

The incremental borrowing rate used as the discount rate in measuring the present value of lease payments is determined by analyzing internal sources of information about borrowings and is adjusted to reflect terms of the lease contract and the type of lease asset.

5. INTEREST INCOME AND EXPENSES

Interest income	2019	2018
Interest income from finance lease activities	422,232	440,677
Penalty interest	9,286	8,069
Interest income on securities	26,677	24,517
Interest income on placements held with banks	1,884	2,151
Total	460,080	475,414
Interest expense		
Interest expense on other borrowings from abroad	(102,467)	(110,274)
Interest expense on borrowings from related parties in the country	(73,758)	(40,947)
Interest expense on rental	(272)	-
Total	(176,497)	(151,221)
Net interest income	283,583	324,193

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

*Amounts stated in RSD thousand, unless indicated otherwise***6. FEE AND COMMISSION INCOME AND EXPENSES****Fee and commission income**

	<u>2019</u>	<u>2018</u>
Income from delivering services - finance lease origination fees	82,631	52,684
Income from warnings	8,375	7,570
Intercalary interest income	20,595	14,966
Income from invoiced lost profits	-	114
Income from costs transferred to lessees	33,756	39,156
Total	<u>145,357</u>	<u>114,490</u>

Fee and commission expenses

Insurance for leased assets	(16,838)	(23,610)
Expenses from placement of leasing assets	(8,516)	(2,094)
Expenses from repossessing leased assets	(2,108)	(3,752)
Registration fees of lease agreements	(10,213)	(9,380)
Expenses from loan guarantees	(11,703)	(11,680)
Other expenses from finance lease activities	(6,113)	(3,348)
Total	<u>(70,279)</u>	<u>(79,417)</u>

Net fee and commission income	<u>89,866</u>	<u>60,626</u>
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7. FOREIGN EXCHANGE LOSSES AND EFFECTS OF FOREIGN EXCHANGE CLAUSE**Gains**

	<u>2019</u>	<u>2018</u>
Income from foreign currency clause application	42,864	34,118
Foreign exchange gains	80,281	107,492
Total	<u>123,145</u>	<u>141,610</u>

Losses

Expenses from foreign currency clause application	(93,577)	(58,931)
Foreign exchange losses	(30,110)	(82,904)
Total	<u>(123,687)</u>	<u>(141,835)</u>
Net losses	<u>(542)</u>	<u>(225)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

*Amounts stated in RSD thousand, unless indicated otherwise***8. OTHER OPERATING INCOME**

	<u>2019</u>	<u>2018</u>
Income from marketing activities	748	3,392
Income from collection of written-off receivables	98	12,941
Gains on sale of intangible assets and equipment	1,844	165
Income from reduction of VAT liabilities on court proceeding termination	460	920
Income from insurance brokerage	29,039	20,739
Other business income	1,314	2,593
Total	<u>33,502</u>	<u>40,750</u>

9. NET IMPAIRMENT GAINS ON FINANCE LEASE RECEIVABLES

	<u>2019</u>	<u>2018</u>
Net impairment of long-term receivables from finance lease activities overdue more than 60 days	6,314	(17,767)
Net impairment of long-term receivables overdue up to 60 days and future receivables from finance lease activities	42,832	40,762
Net impairment of short-term receivables overdue more than 60 days	(5,251)	1,256
Net impairment of short-term receivables overdue up to 60 days	837	(1,546)
Net impairment of other financial placements - Securities	(493)	814
Total	<u>44,239</u>	<u>23,519</u>

10. Net expenses from impairment of assets given in lease, lease assets and assets taken in exchange for uncollected receivables

	<u>2019</u>	<u>2018</u>
Impairment provision of repossessed leased assets after sale	(13,352)	(49,397)
Reversal of impairment provision on repossessed leased assets	1,912	1,195
Total	<u>(11,440)</u>	<u>(48,202)</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

*Amounts stated in RSD thousand, unless indicated otherwise***11. COSTS OF SALARIES. BENEFITS AND OTHER PERSONAL EXPENSES**

	<u>2019</u>	<u>2018</u>
Gross salaries	87,168	80,958
Expenses for accrued bonuses	9,500	9,500
Tax and contribution expenses	13,374	13,203
Other personnel expenses	3,620	2,953
Provision for retirement benefits (Note 24)	157	140
Costs of service contracts	193	-
	<u>114,012</u>	<u>106,754</u>
Total	<u>114,012</u>	<u>106,754</u>

12. DEPRECIATION AND AMORTIZATION EXPENSES

	<u>2019</u>	<u>2018</u>
Amortization of intangible assets (Note 20)	6,212	4,011
Depreciation of property, plant and equipment (Note 21)	2,457	2,392
Depreciation of assets with right of use (Note 21)	6,135	-
	<u>14,804</u>	<u>6,403</u>
Total	<u>14,804</u>	<u>6,403</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

13. OPERATING EXPENSES

	2019	2018
Maintenance costs	15,481	11,594
Advertisement costs	696	559
Consulting services (a)	14,554	13,078
Rental expenses	1,378	5,794
Bank charges	1,352	1,188
Representation costs	1,680	1,927
Youth and student association services	2,650	3,157
Fuel	2,418	2,676
Legal services	1,147	1,408
Transportation and postal service	2,174	2,562
Costs of material	2,118	2,354
Professional development and literature	1,482	1,404
Spare parts and tools	421	880
Audit services	3,667	3,436
Membership fees	1,412	1,337
Insurance premiums	552	691
Translation services and similar services	235	16
Tax expenses	1,094	1,152
Litigation expenses	1,125	406
Direct write-off of receivables	-	1,424
Provision for litigation (b)	14,081	4,873
Costs of other services	5,324	3,202
Total	75,041	65,118

- (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. Belgrade, which in 2019 amounted to RSD 12,213 thousand (2018: RSD 12,213 thousand).
- (b) The costs of provision for litigation are significantly higher compared to previous year due to additional provisions for new litigations during the year, and because of added provisions for penalty interest for litigations from previous years. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

14. INCOME TAXES

(a) Components of Income Taxes

Components of income tax expense are:

	2019	2018
Current tax expense	40,072	47,182
Deferred tax expense	600	-
Deferred tax income	-	(1,913)
Total income tax expense	40,672	45,269

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

Reconciliation between income tax expenses calculated at the statutory income tax rate on profit before tax and income tax expense as per the Company's effective income tax rate for the years ended 31 December 2019 and 2018 is presented below:

	2019	2018
Profit before tax	235,351	222,386
Income tax at statutory rate of 15%	35,303	33,358
Non-deductible expenses	2,612	1,114
Non-deductible impairment of receivables	8,175	12,662
Interest income on securities issued by the Republic of Serbia	(4,002)	(3,678)
Losses of impairment of assets that are recognized in the tax period	1,431	7,410
Correction of previously recognized tax assets	(3,447)	(3,684)
Income tax expense	40,072	47,182
Deferred tax income - tax depreciation	165	(56)
Deferred tax income - IAS 19	(24)	(21)
Tax effects of first time adoption of IFRS 9	459	(1,836)
Total deferred tax expense/income	600	(1,913)
Income tax with deferred tax expense	40,672	45,269
Effective tax rate	17.28%	20.36%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

14. INCOME TAXES (Continued)

(c) Deferred Tax Assets

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

	2019	2018
Balance as at 1 January	4,309	2,396
Effects of temporary differences credited/(charged) to the Statement of profit and loss	(600)	1,913
Balance at 31 December	<u>3,709</u>	<u>4,309</u>

The following table represents the bases for recording deferred tax income / (expense) and the effect on the Statement of profit and loss for 2019 and 2018:

	Deferred tax assets 2018	Statement of profit and loss 2018	Deferred tax assets 2017	Statement of profit and loss 2017
Temporary differences between the carrying amount of equipment and intangible assets and their tax base	2,247	(164)	2,411	56
Temporary differences arising from the first application of IFRS 9 Financial Instruments	1,377	(460)	1,837	1,837
Temporary differences arising from the provision under IAS 19 "Employee Benefits"	85	24	61	20
Total	<u>3,709</u>	<u>(600)</u>	<u>4,309</u>	<u>1,913</u>

(d) Current tax liabilities

	2019	2018
Balance at 31 December	<u>(4,052)</u>	<u>(18,100)</u>

Current tax liability resulting from the difference of the calculated tax expenses for 2019 and the advance tax paid on profits in 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

15. CASH

	<u>2019</u>	<u>2018</u>
Current accounts in RSD	<u>176,388</u>	<u>256,656</u>
Balance as at 31 December	<u>176,388</u>	<u>256,656</u>

During 2019 and 2018 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

	<u>2019</u>	<u>2018</u>
Term deposits	-	673.709
Foreign currency account	<u>-</u>	<u>1.628</u>
Balance as at 31 December	<u>-</u>	<u>675.337</u>

As of December 31, 2019, the Company had financial placements with banks and they relate to the balance of funds in the foreign currency account as well as the term deposit. As of December 31, 2018, 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 deposited for one year term.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

*Amounts stated in RSD thousand, unless indicated otherwise***17. OTHER FINANCIAL PLACEMENTS AND DERIVATIVES**

Other financial placements and derivatives relate to purchased securities that are valued at fair value through other comprehensive results. Below is a comparative overview of financial placements on December 31, 2019 and 2018:

Description of financial placement	Market value 31/12/2019	Maturity of financial placements	Interest rate achieved in the time of purchasing
Government bonds of the Republic of Serbia	634,176	January 2022	3,73% annually
Government bonds of the Republic of Serbia	119,679	January 2023	3.74% annually
Total:	125,912		

Description of financial placement	Market value 31/12/2018	Maturity of financial placements	Interest rate achieved in the time of purchasing
Government bonds of the Republic of Serbia	483,746	February 2019	5.00% annually
Government bonds of the Republic of Serbia	119,679	January 2023	3.74% annually
Total:	603,425		

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 placements are given through the following overview:

	2019	2018
Balance as at 1 January	(2,223)	-
First-time adoption of IFRS 9 - increase	-	(3,037)
Corrected balance on January 1	(2,223)	(3,037)
Allowance for impairment during the year - increase	(2,273)	(449)
Allowance for impairment during the year - decreases	1,781	1,263
Balance as at 31 December	(2,715)	(2,223)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

*Amounts stated in RSD thousand, unless indicated otherwise***18. RECEIVABLES FROM FINANCE LEASE ACTIVITIES**

Structure of receivables from finance lease activities are presented below:

	2019	2018
Overdue finance lease receivables	256,663	282,868
Finance lease receivables with maturity up to 1 year	4,959,431	4,658,974
Finance lease receivables with maturity from 1 to 5 years	9,196,973	8,958,549
Finance lease receivables with maturity over 5 years	801,423	827,559
Total	15,214,490	14,727,950
Short-term receivables	19,094	20,768
Accrued interest income on finance lease receivables	20,063	20,451
Deferred income - finance lease origination fees	(68,905)	(90,471)
Total	15,184,742	14,678,698
Minus:		
Allowance for impairment - overdue receivables	(203,347)	(219,283)
Allowance for impairment - Finance lease receivables with maturity up to 1 year	(30,134)	(36,607)
Allowance for impairment - Finance lease receivables with maturity from 1 up to 5 years	(52,465)	(77,799)
Allowance for impairment - Finance lease receivables with maturity over 5 years	(2,300)	(8,239)
Total	(288,246)	(341,928)
Allowance for impairment - Short-term receivables	(11,284)	(7,008)
Total allowances for impairment	(299,530)	(348,936)
Balance as at 31 December	14,885,212	14,329,762

Placements and receivables from finance lease activities amount to RSD 15,214,490 thousand at 31 December 2019 and have increased by 3.30% compared to the previous year (31 December 2018: RSD 14,727,950 thousand). Short-term receivables relate to other receivables from finance lease are receivables for finance lease origination fees, recharged expenses, penalty interest, warnings and compound interest.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

*Amounts stated in RSD thousand, unless indicated otherwise***18. RECEIVABLES FROM FINANCE LEASE ACTIVITIES (Continued)**

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 68,905 thousand for 2019, or RSD 90,471 thousand for 2018.

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.

- (a) 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 Present Value	Unearned income	Gross receivables
Up to 1 year	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

The present and future value of minimum lease payments receivables, without accrued interest income and deferred origination fees as at **31 December 2018** are presented in the table below:

	Net Present Value	Unearned income	Gross receivables
Up to 1 year	4,941,842	346,615	5,288,457
From 1 to 5 years	8,958,549	506,644	9,465,193
Over 5 years	827,559	50,908	878,467
Total	14,727,950	904,167	15,632,117

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

	2019	2018
Balance as at 1 January	(348,936)	(372,199)
First-time adoption of IFRS 9 - increase	-	(12,262)
Corrected balance on January 1	(348,936)	(384,461)
Allowance for impairment during the year - increase	(10,644)	(19,313)
Allowance for impairment during the year - decreases	53,995	42,018
Write off of receivables - decrease	4,164	12,207
Foreign exchange differences - increase	(25)	(86)
Foreign exchange differences - decrease	1,916	699
Balance as at 31 December	(299,530)	(348,936)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

18. RECEIVABLES FROM FINANCE LEASE ACTIVITIES (Continued)

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

<i>Allowance for impairment</i>	31 December 2018	Decrease during the year	31 December 2019
Stage 1	(65,468)	16,534	(48,934)
Stage 2	(34,930)	5,875	(29,055)
Stage 3	(248,538)	26,997	(221,541)
Total	(348,936)	49,406	(299,530)

- (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 2019 and 31 December 2018, and adjustments of the value of receivables by stage impairment is shown in the following table:

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

	Value of receivables	Allowances for impairment of receivables	Net value of receivables
Stage 1	13,631,374	(65,429)	13,565,945
Stage 2	815,907	(34,921)	780,986
Stage 3	280,669	(241,578)	39,091
Balance as at 31 December 2018	14,727,950	(341,928)	14,386,022

ECL movements in 2019	Stage 1	Stage 2	Stage 3	Total
Opening balance - 01/01/2019	65,468	34,930	248,538	348,936
Transfer to Stage 1	-	(5,493)	-	(5,493)
Transfer to Stage 2	(6,860)	-	-	(6,860)
Transfer to Stage 3	(1,451)	(1,961)	-	(3,412)
<i>ECL movements due to change in measurement</i>	(8,212)	11,481	(17,103)	(13,834)
New production	22,732	4,115	2,829	29,676
Collection	(22,743)	(14,017)	(8,559)	(45,319)
Write-off	-	-	(4,164)	(4,164)
Balance as at 31/12/2019	48,934	29,055	221,541	299,530

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

*Amounts stated in RSD thousand, unless indicated otherwise***18. RECEIVABLES FROM FINANCE LEASE ACTIVITIES (Continued)**

- (d) In 2019 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 2019, average lease origination fee amounted to 0.52% of the gross cost of the leased asset (2018: 0.44%).

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 2018 vary in the following ranges:

	<u>From</u>	<u>To</u>
Finance lease receivables in EUR	1.39%	7.34%
Finance lease receivables in RSD	6.99%	7.10%

The average rate of the clients' participation in accordance with the lease agreements in 2019 amounted to 15.01% of the net cost of the leased asset (2018: 12.83%).

19. REPOSSESSED LEASED ASSETS AND INVENTORIES

	<u>2019</u>	<u>2018</u>
Other assets acquired in exchange for unpaid receivables	597	597
Advances paid - other	309	65
Advances paid - supply of finance lease assets	5,920	117,237
Finance lease assets repossessed in exchange for uncollectible receivables	<u>21,967</u>	<u>36,519</u>
Balance as at 31 December	<u>28,793</u>	<u>154,418</u>

As at 31 December 2019 finance lease assets repossessed in exchange for uncollectible receivables amounting RSD 21,967 thousand (31 December 2018: RSD 36,519 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 sale of portion of equipment in the amount of RSD 6,933 thousand, including 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 7,168 thousand.

Advances for the purchase of lease assets in the amount of RSD 117,237 thousand as of December 31, 2019 relate to one financial leasing agreement whose activation is planned in 2020 (as of December 31, 2018 the amount of RSD 117,237 thousand relates to three finance lease contracts).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

20. INTANGIBLE ASSETS

	<u>Licenses and software</u>	<u>Intangible assets under development</u>	<u>TOTAL</u>
COST			
Balance as at 1 January 2018	34,758	574	35,332
Additions during the year	8,730	3,487	12,217
Transfer (from)/to	2,215	(2,215)	-
Disposals	-	(325)	(325)
Balance as at 31 December 2018	<u>45,703</u>	<u>1,521</u>	<u>47,224</u>
Additions during the year	6,010	2,830	8,840
Transfer (from)/to	3,180	(3,180)	-
Balance as at 31 December 2019	<u>54,893</u>	<u>1,171</u>	<u>56,064</u>
ACCUMULATED AMORTIZATION			
Balance as at 1 January 2018	24,256	-	24,256
Amortization (Note 12)	4,011	-	4,011
Balance as at 31 December 2018	<u>28,267</u>	<u>-</u>	<u>28,267</u>
Amortization (Note 12)	6,212	-	6,212
Balance as at 31 December 2019	<u>34,479</u>	<u>-</u>	<u>34,479</u>
Net book value as at			
- 31 December 2019	<u>20,414</u>	<u>1,171</u>	<u>21,585</u>
- 31 December 2018	<u>17,436</u>	<u>1,521</u>	<u>18,957</u>

In 2019 the upgrade of the information system "Nova" was continued with upgrades of existing modules and activation of the ILB portal, including investments in intangible assets under construction for five new processes.

The Company's management estimates that there are no indications that intangible assets are impaired as at 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

21. PROPERTY, PLANT AND EQUIPMENT

COST	Vehicles	Vehicles on lease	Real-estate on lease	Other equipment	TOTAL
Balance as of January 1, 2018	19,528	-	-	3,265	22,793
Additions during year - new purchases	-	-	-	1,124	1,124
Additions during year - equipment under const.	-	-	-	(403)	(403)
Disposal	(3,423)	-	-	(797)	(4,220)
Balance as of December 31, 2018	16,105	-	-	3,189	19,294
Additions during year - new purchases*	-	9,912	12,571	896	23,379
Additions during year - equipment under const.	-	-	-	-	-
Disposal	(6,842)	-	-	(528)	(7,370)
Balance as of December 31, 2019	9,263	9,912	12,571	3,557	35,303
ACCUMULATED DEPRECIATION					
Balance as of January 1, 2018	14,782	-	-	2,009	16,791
Depreciation (Note 12)	1,956	-	-	436	2,392
Disposal	(3,400)	-	-	(798)	(4,198)
Balance as of December 31, 2018	13,338	-	-	1,647	14,985
Depreciation (Note 12)	1,946	1,652	4,483	511	8,592
Disposal	(6,842)	-	-	(528)	(7,370)
Balance as of December 31, 2019	8,442	1,652	4,483	1,630	16,207
Net book value as of: December 31, 2019	821	8,260	8,088	1,927	19,096
December 31, 2018	2,767	-	-	1,542	4,309

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

*Amounts stated in RSD thousand, unless indicated otherwise***21. PROPERTY, PLANT AND EQUIPMENT (Continued)**

The Company has no restrictions on ownership of equipment as of 31 December 2019, nor has any item of equipment been pledged as a collateral.

The Company's management estimates that there are no indications that the value of the equipment is impaired as at 31 December 2019.

First time adoption of IFRS 15 Leases

Right-of-use assets, commercial premises and vehicles, in 2019:

	Real-estate on lease	Passenger vehicles on lease	TOTAL
Balance as of January 1, 2019	12,571	-	12,571
Additions during the year		9,912	9,912
Depreciation for the year	(4,483)	(1,652)	(6,135)
Balance as of December 31, 2019	8,088	8,260	16,348

Amounted 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	5,026
Payments for lease of passenger vehicles	1,776
Total	6,802

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

*Amounts stated in RSD thousand, unless indicated otherwise***22. OTHER ASSETS**

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

	2019	2018
Interest receivable on term deposits	199	188
Receivables for expenses subject to refunding (Note 30(b))	779	785
Receivables for changes in tax base	230	496
Other accruals	2,671	3,859
Prepaid expenses	16,755	10,067
Receivables on sale of leased assets	7,722	64,714
Other receivables	31,058	4,484
Total	59,414	84,593

Change in prepaid expenses in 2019 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 2019 amounted to RSD 15,538 thousand, while the balance as at 31 December 2018 amounted to RSD 8,944 thousand.

Sales receivables relate to 8 items sold with deferred lease deals that were negotiated with the buyers of these items. These receivables are payable in the first quarter of 2020 (as of December 31, 2018, receivables related to the sale of 44 lease assets).

Other receivables as of December 31, 2019, primarily relate to VAT receivables in the amount of RSD 26.130 thousand, and to insurance agency services for lease assets with insurance companies in the amount of RSD 4,441 thousand (receivables for insurance agency services as of December 31, 2018, amount to RSD 2,428 thousand).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

*Amounts stated in RSD thousand, unless indicated otherwise***23. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS****A) FINANCIAL LIABILITIES FOR FUNDS BORROWED FROM BANKS AND OTHER FINANCIAL INSTITUTIONS**

An overview of financial liabilities for funds borrowed from banks and other financial institutions is provided below:

	<u>2019</u>	<u>2018</u>
Short-term borrowings in the country	587,964	1,220,031
Interest payable on borrowings in the country	6,350	3,382
Portion of long-term borrowings with maturity up to 1 year in the country	1,199,603	660,787
Portion of long-term borrowings with maturity up to 1 year from abroad	2,143,969	1,645,884
Portion of long-term borrowings with maturity from 1 to 5 years in the country	4,149,043	2,401,864
Portion of long-term borrowings with maturity from over 5 years in the country	55,997	225,133
Portion of long-term borrowings with maturity from 1 to 5 years from abroad	5,701,656	7,369,213
Portion of long-term borrowings with maturity from over 5 years from abroad	<u>717,663</u>	<u>1,361,654</u>
Total	<u>14,562,245</u>	<u>14,887,948</u>
Accrued interest and guarantees expenses on long-term borrowings from abroad	21,170	29,848
Deferred disbursement fees on borrowings in the country	(10,946)	(10,499)
Deferred disbursement fees on borrowings from abroad	<u>(19,063)</u>	<u>(40,356)</u>
Balance as at 31 December	<u>14,553,406</u>	<u>14,866,941</u>

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 borrowings.

As at 31 December 2019 the Company had the following approved and unused borrowings: long-term borrowing in the amount of EUR 2.50 million approved by European Investment Bank, and part of short-term revolving borrowing of RSD 4 million and part of long-term borrowing in the amount of EUR 3.44 million approved by Banca Intesa AD Beograd.

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

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

As at December 31, 2019, the Company did not have covenants above the limit under contracts with creditors where it was defined

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For the year ended 31 December 2019

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

Finance liabilities by creditors

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

Creditor	Balance as of January 1, 2019	Drawdowns during the year	Repayments during the year	Other drawdowns/ decreases during the year	Balance as of December 31, 2019
Banca Intesa a.d. Beograd	4,511,196	4,930,970	(3,479,320)	36,111	5,998,957
Council of Europe Development Bank	295,487	-	(196,224)	(1,269)	97,994
European Investment Bank	3,031,717	383,031	(130,754)	(17,527)	3,266,467
GGF Southeast Europe B.V.	214,523	-	(107,127)	(975)	106,421
KfW Entwicklungsbank	1,772,919	-	(195,906)	(9,031)	1,567,982
European Fund for Southeastern Europe	759,822	-	(758,227)	(1,595)	-
European Bank for Renewal and Development	4,302,284	-	(756,901)	(20,959)	3,524,424
Total	14,887,948	5,314,001	(5,624,459)	(15,245)	14,562,245

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 of January 1, 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 of December 31, 2019	8,106	8,276	16,382

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

	Present value	Undiscounted contractual cash flows
Up to 1 year	6,406	6,608
From 1 to 5 years	9,976	9,820
Total	16,382	16,428

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For the year ended 31 December 2019

*Amounts stated in RSD thousand, unless indicated otherwise***23. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (Continued)**

As of December 31, 2018, future minimum lease payments based on operating lease contracts for the planned lease term according to IAS 17 (undiscounted contractual cash flows):

	<u>2018</u>
Up to 1 year	4,581
From 1 to 5 years	<u>8,269</u>
Total	<u>12,850</u>

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 2019 and 31 December 2018 in the amount of discounted present value of future payments. When determining the present value of the expected outflows, the discount rate of 4% 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 4.0% a year.

Structure of provisions is shown in the following table:

	<u>2019</u>	<u>2018</u>
Long-term provisions for retirement benefits	567	410
Provision for litigation	<u>18,219</u>	<u>4,872</u>
Balance as at 31 December	<u>18,786</u>	<u>5,282</u>

Movements in provisions during the year were as follows:

	<u>2019</u>	<u>2018</u>
Balance as at 1 January	5,282	270
Long-term provisions for retirement benefits (Note 11)	157	140
Provision for litigation (Note 13)	<u>13,347</u>	<u>4,872</u>
Balance as at 31 December	<u>18,786</u>	<u>5,282</u>

The assessment of the risk of loss in connection with litigation and the provision for contingent liabilities relate to the amount of RSD 18,219 thousand related to thirteen passive litigation proceedings initiated against the Company (as of December 31, 2018, nine passive litigations proceedings were ongoing).

Litigations in which ILB was respondent involved unreconciled EURIBOR rates and compensation of damages due to inability to use lease assets because they could not be registered.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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25. OTHER LIABILITIES

	2019	2018
Domestic trade payables	20,907	20,809
Other payables to customers	31,725	35,126
Liabilities for unused vacations (Note 11)	3,626	2,834
Other deferrals	6,804	8,931
Withholding tax payable	79	35
Value added tax payable	-	11,123
Liabilities for salaries and benefits	9,563	9,067
Other liabilities	1,284	87,284
Balance as at 31 December	73,988	175,209

Other payables to customers in the amount of RSD 31,725 thousand as of December 31, 2019 (December 31, 2018: RSD 35,126 thousand) mostly relate to prepaid lease instalments by customers in the amount of RSD 30,006 thousand (2018: RSD 31,820 thousand). Other liabilities as of December 31, 2018, included liabilities for profit distribution in the amount of RSD 86,000 thousand, where as of December 31, 2019, the Company does not have this liability.

26. STAKE CAPITAL

The Company's stake capital structure by stakeholders' contribution as at 31 December 2019 and 2018 is presented in the table below:

	2019	2018
Banca Intesa a.d. Belgrade	960,374	960,374
Total	960,374	960,374

Accordingly, as at 31 December 2019 Banca Intesa a.d. Beograd is the sole owner of the Company with 100% share in the Company's stake (initial) capital.

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

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

The pecuniary portion of the initial capital of the Company as at 31 December 2019 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).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

*Amounts stated in RSD thousand, unless indicated otherwise***27. RESERVES, REVALUATION RESERVES AND UNREALIZED GAINS**

The structure of the Company's reserves as at 31 December 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Unrealized gains on the market value of securities	29,250	2,492
Other reserves - transferred gains	<u>103,368</u>	<u>-</u>
Balance as at 31 December	<u>132,618</u>	<u>2,492</u>

Unrealized gain in 2019 is the result of the valuation of securities (Note 17) to the market value at the reporting date in the amount of RSD 26,535 thousand (December 31, 2018: RSD 269 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 2019 in the amount of RSD 2,715 thousand (31 December 2018: RSD 2,223 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 2019 amounted to RSD 194,679 thousand (31 December 2018: RSD 103,368 thousand) and consist of part of profit for the current year.

29. COMMITMENTS AND CONTINGENT LIABILITIES**(a) Litigations**

On December 31, 2019, fourteen passive legal disputes were conducted against the Company. The total value of these court disputes is RSD 8,220 thousand (December 31, 2018: RSD 3,417 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 approaches to some issues, and could assess additional tax liabilities together with related penalty interest and fines. The Company's management believes that tax liabilities recognized in the accompanying financial statements are fairly presented.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

*Amounts stated in RSD thousand, unless indicated otherwise***30. RELATED PARTY DISCLOSURES**

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

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

Received guarantees from related parties have been recorded within the off-balance sheet items and they are, as at 31 December 2019 RSD 8,456,867 thousand (December 31, 2018: RSD 9,402,406 thousand) from Intesa Sanpaolo S.p.A. Milano.

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

Outstanding balances of receivables and liabilities as at 31 December 2019 and 2018 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

	<u>2019</u>	<u>2018</u>
Cash (Note 15)	176,388	256,656
Financial placements held with banks (Note 16)	-	675,337
Receivables from finance lease activities	7,049	5,189
Interest receivable for transactional deposits	<u>198</u>	<u>188</u>
Balance as at 31 December	<u>183,635</u>	<u>937,370</u>

Liabilities to Banca Intesa a.d. Beograd

	<u>2019</u>	<u>2018</u>
Long-term borrowings (Note 23)	4,205,040	2,626,997
Short-term borrowings (Note 23)	1,787,570	1,880,818
Interest payable (Note 23)	6,350	3,382
Deferred disbursement fees on approval of borrowings in the country	(10,946)	(10,449)
Liabilities for profit payment (Note 25)	-	86,000
Other liabilities	<u>17,445</u>	<u>17,592</u>
Balance as at 31 December	<u>6,005,459</u>	<u>4,604,340</u>

Income from Transactions with Banca Intesa a.d. Beograd

	<u>2019</u>	<u>2018</u>
Interest income on deposits (Note 5)	1,884	2,151
Interest income from finance lease activities	227	478
Fee and commission income (Note 6)	32	27
Net income from exchange rate differentials and currency clause effects	<u>2,729</u>	<u>2,984</u>
Total	<u>4,872</u>	<u>5,640</u>

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For the year ended 31 December 2019

*Amounts stated in RSD thousand, unless indicated otherwise***30. RELATED PARTY DISCLOSURES (Continued)****Expenses from Transactions with Banca Intesa a.d. Beograd**

	<u>2019</u>	<u>2018</u>
Interest expenses (Note 5)	63,818	35,420
Fee and commission expenses	9,952	5,527
Expenses on SLA contract (Note 13(a))	13,734	12,213
Other expenses	<u>3,222</u>	<u>6,855</u>
Total	<u>90,726</u>	<u>60,015</u>

(b) Transactions with Other Related Parties

As at 31 December 2019 and 2018 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

	<u>2019</u>	<u>2018</u>
Other assets	<u>779</u>	<u>785</u>
Balance as at 31 December	<u>779</u>	<u>785</u>

Balance of other assets from a related party Intesa Sanpaolo S.p.A. Milano as at 31 December 2019 relate to receivables for salary of one of the Company's employees to be refunded.

Liabilities to the Members of Intesa Sanpaolo Group

	<u>2019</u>	<u>2018</u>
Other liabilities	<u>8,370</u>	<u>3,680</u>
Balance as at 31 December	<u>8,370</u>	<u>3,680</u>

At the end of 2019 the Company had commitments to a related party of the Intesa Sanpaolo S.p.A. Milano for accrued expenses for guarantees given.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

*Amounts stated in RSD thousand, unless indicated otherwise***30. RELATED PARTY DISCLOSURES (Continued)****(b) Transactions with Other Related Parties (Continued)****Expenses from Transactions with the Members of Intesa Sanpaolo Group**

	<u>2019</u>	<u>2018</u>
Fee and commission expense	11,703	11,680
Total	<u>11,703</u>	<u>11,680</u>

Fee and commission expense in 2019 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 2019 and 2018 salaries in the following amounts were paid to the Company's management:

	<u>2019</u>	<u>2018</u>
Total gross salaries	28,130	27,219
Total net salaries	21,032	20,295

No remunerations were paid to the members of the Supervisory Board in 2019 and 2018.

31. RISK MANAGEMENT

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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31. RISK MANAGEMENT (Continued)

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

At the meeting of the Managing Board held on April 2, 2019, the Decision on Adoption of Limits for Defining the Company's Risk Appetite (RAF limits) which replaces the previous Decision on Adoption of Limits for Defining the Company's Risk Appetite and the Decision on the Amendment of the Decision on Adoption of Limits for Defining the Company's Risk Appetite (RAF limits) for 2018.

Limits in accordance with these decisions are:

1. Limits of capital adequacy, liquidity and operational risk (so-called "top of the house") are as follows:

2.

a) Capital adequacy ratio should be greater than 8%.

The capital adequacy ratio is calculated based on calculation rules (CRR) used to report quarterly to the Parent Bank.

b) Leverage Ratio, as a ratio of equity and total assets, should be greater than 3%.

The leverage ratio, calculated in accordance with Basel III, is the ratio between Tier 1 capital and Total Assets Adjusted. Total Assets Adjusted are equal to the sum of: Total balance sheet assets + Off-balance sheet assets weighted for credit conversion factors + 10% of revoked credit lines + Positive fair value of derivatives + Regulatory exposure at default for derivatives before taking into account credit guarantees.

c) The liquidity coverage indicator (LCR) should be greater than 103%.

The purpose of the indicator is to maintain a sufficient level of highly liquid assets (cash or assets that can be readily converted into cash without a loss or minimal loss) that allows to overcome the situation of significant liquidity stress over a period of 30 days.

d) The net stable funding indicator (NSFR) should be greater than 100%.

The purpose of the indicators and limits is to prevent structural mismatches in the structure of balance assets and liabilities over a period of more than 1 year. NSFR is a liquidity indicator under normal conditions (regular business operations) which indicates and is intended to limit maturity transformations over a period of one year.

e) Operational risk - Cumulative loss less than EUR 200,000.

This limit refers to operational risk losses that have been booked (or spotted) in the previous 12 months that occurred over the past 5 years.

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31. RISK MANAGEMENT (Continued)

- f) Operational risk - The individual operating loss should be less than EUR 100,000.

This limit refers to operational risk losses that have been booked in the previous 12 months, and are associated with the same operational risk event that has occurred over the past 5 years.

3. Specific limits:

- a) Exposure Limit to the State:

Exposure to domestic and foreign states and public enterprises expressed as a percentage of total assets. Exposure is decreased for provisions.

- b) Limit of concentration on commercial real estate clients should be less than 25%.

The limit includes collectible and uncollectible exposures to clients involved in commercial real-estate properties or their construction (NACE code: 41, 43, 68) compared to total exposure to clients. Exposure is decreased for provisions and acceptable collateral (such as cash deposits, bank guarantees, state guarantees, pledged treasury bonds) and includes irrevocable credit lines and off-balance sheet exposures. The percentage exposure to construction industry clients is expressed compared to the total portfolio of Intesa Leasing.

- c) The concentration limit per individual client or group of connected persons shall not exceed 30% of the capital.

The concentration limit per individual client (group of related parties) is expressed as a percentage of capital. Exposure is decreased for provisions and acceptable collateral (such as cash deposits, bank guarantees, state guarantees, pledged treasury bonds).

- d) Concentration limit by type of lease.

Concentration limit by type of lease is expressed as a percentage of total exposure to clients (total portfolio of Intesa Leasing). The concentration limits is decreased for provisions and includes irrevocable credit lines and off-balance sheet exposures. The limit depends on type of lease, as follows:

- o passenger vehicles: under 45%
- o special vehicles (rail vehicles, watercraft, aircraft): under 5%
- o other road vehicles (buses, trucks, minibuses): under 55%
- o agricultural machinery and equipment: under 20%
- o real-estate property: under 20%
- o construction equipment: under 20%
- o other equipment: under 20% of net exposure by type of lease compared to total exposure should be under 60%.

- e) Concentration limit for large exposures (soft limit): under 600%.

Sum of exposures to individual clients (group of related parties) whose individual exposure is higher than 10% of equity. Exposure to individual clients is decreased for provisions and acceptable collateral (such as cash deposits, bank guarantees, state guarantees, pledged treasury bonds).

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31. RISK MANAGEMENT (Continued)

f) The limit of the sensitivity of the economic value of capital: maximum 20% of regulatory capital

Sensitivity to change in the interest rate of +/- 200 basis points.

g) The open foreign exchange position less than EUR 800,000

In addition to the Decision on the Adoption of a Limit Defining the Risk Limits of the Company (RAF Limits), as an document that regulates risk management, in order to implement a specific and unique risk management system and to ensure functional and organizational separation of risk management activities from regular business activities, risks are included in the Risk Management Department and the Credit Management Sector of Banca Intesa ad Belgrade.

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
- Policy for managing information system

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

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

31.1. Credit Risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

*Amounts stated in RSD thousand, unless indicated otherwise***31. RISK MANAGEMENT (Continued)****31.1. Credit Risk (Continued)**

Credit risk management is carried out at the following levels:

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

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

- The Company obtains all the necessary documentation from clients for the credit worthiness analysis.
- If the decision making level is greater than 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 member 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 ILB is regulated by the Credit Risk Management Procedure, starting as of December 3, 2019, as follows:

- Internal approval of applications (at ILB 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.

The credit process in ILB 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.

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31. RISK MANAGEMENT (Continued)**31.1. Credit Risk (Continued)**

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 the execution of transaction.

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

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

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

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.

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

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

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

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31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

In 2019, 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:

	2019	2018
Cash	176,388	256,656
Financial placements held with banks	-	675,337
Other financial placements and derivatives	760,088	603,425
Receivables from finance lease activities	14,885,212	14,329,762
Other assets - receivables from the sale of leased objects	7,722	64,714
Maximum credit risk exposure	15,829,410	15,929,894

(a) Portfolio Quality

In 2019 the Company continued the trend of portfolio quality improvement and high coverage of non-performing placements with provisions. The following table presents the quality of the **gross portfolio**, i.e. receivables from finance lease activities excluding other receivables, accrued interest income and deferred origination fees (Note 18) and **allowances for impairment of receivables on finance lease activities** as at 31 December 2019, by types of receivables and based on the Company's internal grading system:

	Performing	Past due	Unlikely to pay	Doubtful	Total 31/12/2019
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%

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For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(a) Portfolio Quality (Continued)

	Performing	Past due	Unlikely to pay	Doubtful	Total 31/12/2019
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	2705%	0.54%	0.81%	71.60%	100.00%

The following table presents the quality of the **gross portfolio**, i.e. receivables from finance lease activities excluding other receivables, accrued interest income and deferred origination fees (Note 18) and **allowances for impairment of receivables on finance lease activities** as at 31 December 2018, by types of receivables and based on the Company's internal grading system:

	Performing	Past due	Unlikely to pay	Doubtful	Total 31/12/2018
Receivables from Banca Intesa a.d. Beograd	5,024	-	-	-	5,024
Receivables from Customers					
Corporate Customers	1,113,391	-	-	-	1,113,391
Medium Enterprises	2,953,922	-	-	3,875	2,957,797
Small Enterprises	7,177,163	-	33,671	48,131	7,258,965
Micro Enterprises	2,437,387	-	-	112,163	2,549,550
Entrepreneurs	441,922	-	-	12,594	454,516
Retail Customers	114,497	-	-	6,781	121,278
Farmers	166,010	-	-	63,454	229,464
Other Institutions	37,965	-	-	-	37,965
Total	14,447,281	-	33,671	246,998	14,727,950
Participation in the total gross receivables	98.09%	0.00%	0.23%	1.68%	100.00%

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For the year ended 31 December 2019

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31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(a) Portfolio Quality (Continued)

	Performing	Past due	Unlikely to pay	Doubtful	Total 31/12/2018
Impairment provision Banca Intesa a.d. Beograd	1	-	-	-	1
Receivables from Customers					
Corporate Customers	4,402	-	-	-	4,402
Medium Enterprises	12,187	-	-	3,875	16,062
Small Enterprises	38,068	-	11,410	42,238	91,716
Micro Enterprises	35,323	-	-	105,895	141,218
Entrepreneurs	8,156	-	-	8,168	16,324
Retail Customers	566	-	-	6,623	7,189
Farmers	1,473	-	-	63,369	64,842
Other Institutions	174	-	-	-	174
Total	100,350	-	11,410	230,168	341,928
Participation in the total impairment provision	29.35%	0.00%	3.34%	67.31%	100.00%

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

Internal rating 2019	Gross placement	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%

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For the year ended 31 December 2019

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31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(a) Portfolio Quality (Continued)

Internal rating 2018	Gross placement	Share of gross placements in total placements	Impairment	Share of impairment in total impairments
Inter company	5,024	0.03%	1	0.00%
A1	506,595	3.44%	212	0.06%
A2	688,558	4.68%	589	0.17%
A3	4,227,517	28.70%	6,612	1.93%
B1	1,702,205	11.56%	2,914	0.85%
B2	2,304,307	15.65%	6,583	1.93%
B3	1,884,108	12.79%	10,605	3.10%
B4	1,547,921	10.51%	17,518	5.12%
C1	287,193	1.95%	7,521	2.20%
C2	362,352	2.46%	17,830	5.21%
C3	80,304	0.55%	11,471	3.35%
D	280,669	1.91%	241,578	70.65%
S13	77,521	0.53%	311	0.09%
STRONG	-	0.00%	-	0.00%
Unrated	773,676	5.25%	18,183	5.32%
Total				
31/12/2018	14,727,950	100.00%	341,928	100.00%

The following table presents the **quality of the net portfolio, i.e. receivables from finance lease activities** excluding other receivables, accrued interest income and deferred origination fees as at 31 December 2019 and 2018, by types of receivables and based on the Company's internal grading system:

	Performing	Past due	Unlikely to pay	Doubtful	Total 31/12/2019
Receivables - Banca Intesa a.d. Beograd	7,048	-	-	-	7,048
Receivables-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%

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For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(a) Portfolio Quality (Continued)

	Performing	Past due	Unlikely to pay	Doubtful	Total 31/12/2018
Receivables - Banca Intesa a.d. Beograd	5,023	-	-	-	5,023
Receivables-customers					
Corporate Customers	1,108,989	-	-	-	1,108,989
Medium Enterprises	2,941,735	-	-	-	2,941,735
Small Enterprises	7,139,095	-	22,261	5,893	7,167,249
Micro Enterprises	2,402,064	-	-	6,268	2,408,332
Entrepreneurs	433,766	-	-	4,426	438,192
Retail Customers	113,931	-	-	158	114,089
Farmers	164,537	-	-	85	164,622
Other Institutions	37,791	-	-	-	37,791
Total	14,346,931	-	22,261	16,830	14,386,022
Participation in the total net receivables	99.73%	0.00%	0.15%	0.12%	100.00%

Ageing Structure of Overdue Receivables of High and Standard Quality

In 2019 the trend of decrease in overdue uncollected receivables and days overdue continued. The ageing analysis of overdue receivables from customers of high and standard quality as at 31 December 2019 is presented in the table below:

	Up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total 31/12/2019
Receivables - 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%

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31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

The ageing analysis of overdue receivables from customers of high and standard quality as at 31 December 2018 is presented in the table below:

	Up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total 31/12/2018
Receivables - Banca Intesa a.d. Beograd	-	-	-	-	-
Receivables from Customers					
Corporate Customers	2,978	14	-	-	2,992
Medium Enterprises	9,135	-	-	-	9,135
Small Enterprises	26,365	2,311	-	-	28,676
Micro Enterprises	9,105	501	290	-	9,896
Entrepreneurs	4,416	354	-	-	4,770
Retail Customers	287	1	-	-	288
Farmers	2,023	571	-	-	2,594
Other Institutions	-	-	-	-	-
Total	54,309	3,752	290	-	58,351
Participation in total overdue receivables of high and standard quality	93.07%	6.43%	0.50%	0.00%	100.00%

(b) Maximum Exposure to Credit Risk

The structure of the Company's maximum credit risk exposure presented at its **gross value of receivables from finance lease activities** excluding short term receivables, accrued interest income and deferred origination fees (Note 18) as at **31 December 2019**, grouped by geographical sectors, is presented in the table below:

Geographical region	Receivable from clients	Allowance for impairment	Total 31/12/2019	% Participation in total 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%

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31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

The structure of the Company's maximum credit risk exposure presented at its **gross value of receivables from finance lease activities** excluding short term receivables, accrued interest income and deferred origination fees (Note 18) as at **31 December 2018**, grouped by geographical sectors, is presented in the table below:

<u>Geographical region</u>	<u>Receivable from clients</u>	<u>Allowance for impairment</u>	<u>Total 31/12/2018</u>	<u>% Participation in total net receivables</u>
Vojvodina	5,207,400	(89,333)	5,118,067	35.58%
Belgrade	6,514,483	(133,298)	6,381,185	44.36%
South and East Serbia	721,643	(49,433)	672,210	4.67%
Sumadija and West Serbia	2,284,424	(69,864)	2,214,560	15.39%
Total	14,727,950	(341,928)	14,386,022	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, 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, while the Construction and Agriculture sectors also registered increases.

Analysis as at 31 December 2018 and 2017, grouped by industrial sectors, is presented in the table below:

<u>Industry structure</u>	<u>Maximum exposure 2019</u>	<u>Percentage of exposure 2019</u>	<u>Maximum exposure 2018</u>	<u>Percentage of exposure 2018</u>
1. Agriculture, forestry and fishing	808,951	5.42%	326,667	2.27%
2. Mining industry; Processing industry; Water supply, waste water management and related activities	1,868,703	12.52%	1,981,040	13.77%
3. Power supply, gas, steam supply and air conditioning	47,104	0.32%	48,060	0.33%
4. Construction	2,170,825	14.54%	2,178,890	15.15%
5. Wholesale and retail, vehicles and motorcycles repair	1,644,087	11.01%	1,359,821	9.452%
6. Transportation and storage - information and communications	4,285,145	28.71%	4,794,169	33.33%
7. Hotels and restaurants	233,047	1.56%	186,109	1.29%
8. Financial activities and insurance	37,487	0.25%	21,805	0.15%
9. Health care and social work	207,578	1.39%	214,969	1.49%
10. Other industries	3,623,317	24.27%	3,274,492	22.76%
Total	14,926,244	100.00%	14,386,022	100.00%

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31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(b) *Maximum Exposure to Credit Risk (Continued)*

	Maximum exposure 2019	Percentage of exposure 2019	Maximum exposure 2018	Percentage of exposure 2018
Exposure by leased asset				
1. Production machines and equipment	8,206	0.05%	34,724	0.24%
2. Construction machines and equipment	1,336,021	8.95%	1,276,119	8.87%
3. Agricultural machines and equipment	761,206	5.10%	446,876	3.11%
4. Trucks, vans and buses	6,565,122	43.98%	6,579,114	45.73%
5. Passenger vehicles	3,346,739	22.42%	2,888,722	20.08%
6. Rail vehicles, watercraft and aircraft	6,614	0.04%	11,139	0.08%
7. House appliances	-	-	-	0.00%
Machines and equipment for service				
8. provision	-	-	1,419	0.01%
9. Other movables	1,123,133	7.52%	1,488,318	10.35%
10. Commercial properties	1,693,105	11.34%	1,658,936	11.54%
11. Other movables	86,098	0.58%	655	0.00%
Total	14,926,244	100.00%	14,386,022	100.00%

The largest share is held by trucks and buses in the amount of 45.73%. 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.

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 2019, 16 clients with the largest net receivables individually have exposure risk exceeding 10% of the Company's equity (2018: 17 clients).

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31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

(b) *Maximum Exposure to Credit Risk (Continued)**Exposure Risk (Continued)*

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 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:

	<u>2019</u>	<u>2018</u>
Carrying amount of the allowance for impairment for receivables	288,246	341,928
Allowance for impairment of receivables without collateral	<u>289,249</u>	<u>468,381</u>
Effect on the calculation of the allowance for impairment of receivables	<u>91,701</u>	<u>126,453</u>
Effect on the calculation of collective allowances for impairment	91,701	126,453
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.

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

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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 2019 and 31 December 2018 is given in the following table:

	2019		2018	
	Gross placement	The total value of the collateral	Gross placement	The total value of the collateral
Receivables from corporate customers:	14,094,049	13,775,383	13,879,704	12,851,722
Secured by mortgage	883,515	883,515	971,207	971,207
Secured by deposit and guarantee	1,544,245	1,544,245	555,246	63,726
Secured by leased asset	11,666,289	11,347,623	12,353,251	11,816,789
Unsecured by collateral	-	-	-	-
Receivables from entrepreneurs, retail customers and farmers:	1,083,460	1,056,677	805,258	792,580
Secured by mortgage	11,972	11,972	18,531	18,531
Secured by deposit	2,745	2,745	1,164	1,164
Secured by leasing asset	1,068,743	1,041,960	785,563	772,885
Unsecured by collateral	-	-	-	-
Receivables from Banks:	7,049	6,446	5,024	7,273
Secured by mortgage	-	-	-	-
Secured by deposit	-	-	-	-
Secured by leasing asset	7,049	6,446	5,024	7,273
Unsecured by collateral	-	-	-	-
Receivables from State and Local Government	29,932	29,754	37,964	37,657
Secured by mortgage	-	-	-	-
Secured by deposit	-	-	-	-
Secured by leasing asset	29,932	29,754	37,964	37,657
Unsecured by collateral	-	-	-	-
Total at 31 December	15,214,490	14,868,260	14,727,950	13,689,232

Mortgage as collateral is shown up to the amount of the receivable. 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.

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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 2019 and 31 December 2018 is given in the following table:

<u>2019</u>		<u>2018</u>	
<u>LTV ratio</u>	<u>Amount of receivable</u>	<u>LTV ratio</u>	<u>Amount of receivable</u>
<50%	1,356,104	<50%	1,016,917
51% - 70%	3,039,373	51% - 70%	2,829,986
71% - 90%	5,396,890	71% - 90%	3,992,408
91% - 100%	1,936,198	91% - 100%	3,147,382
>100%	3,485,925	>100%	3,741,257
Total	15,214,490	Total	14,727,950

The LTV ratio in 91% - 100% range in 2019 registered the highest decrease due to repayment of placements and transfers in the 71% - 90% range.

(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 2019 and 2018 is presented below:

<u>2019</u>	<u>Gross receivables From finance lease activities</u>	<u>Allowance for impairment</u>	<u>Net receivables From finance lease activities</u>
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

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31. RISK MANAGEMENT (Continued)

31.1. Credit Risk (Continued)

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

	Gross receivables from finance lease activities	Allowance for impairment	Net receivables from finance lease activities
2018			
Receivables Banca Intesa a.d. Beograd	5,024	(1)	5,023
Corporate customers	1,113,391	(4,402)	1,108,989
Medium enterprises	2,957,798	(16,062)	2,941,736
Small enterprises	7,258,964	(91,717)	7,167,247
Micro enterprises	2,549,550	(141,218)	2,408,332
Entrepreneurs	454,516	(16,324)	438,192
Retail customers	121,278	(7,189)	114,089
Farmers	229,464	(64,841)	164,623
Other institutions	37,965	(174)	37,791
Total	14,727,950	(341,928)	14,386,022

Structure of impairment of financial assets by the model of impairment calculation as at 31 December 2019 and 2018 is presented in the following table:

Structure of impairment 2019	Gross receivables from finance lease activities	% gross receivables	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%

Structure of impairment 2018	Gross receivables from finance lease activities	% gross receivables	Impairment	% total impairment
Group impairment assessment	14,727,950	100.00%	(341,928)	100.00%
Individual impairment assessment	-	-	-	-
Total	14,727,950	100.00%	(341,928)	100.00%

As of December 31, 2019, the estimated amount of impairment of cash is immaterial, given that all cash is 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.

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*Amounts stated in RSD thousand, unless indicated otherwise***31. RISK MANAGEMENT (Continued)****31.1. Credit Risk (Continued)****(c) Assessment of Impairment of Financial Assets**

The Company performed assessment of credit risk for Other financial placements for Available for sale securities. These assets were impaired for the first time on January 1, 2018, with the initial effects of the impairment decreasing the profit line item. All subsequent impairments of these assets were reported in profit and loss.

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

	<u>2019</u>	<u>2018</u>
Balance on January 1	2,223	3,037
Increased purchase of securities	2,289	449
Decrease - collection of securities	(1,774)	-
Increase in calculation during the year	-	-
Decrease in calculation during the year	<u>(23)</u>	<u>(1,263)</u>
Balance on December 31	<u>2,715</u>	<u>2,223</u>

31.2. Liquidity Risk

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

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

Objectives of liquidity management comprise:

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

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

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

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

Furthermore, the Company has contracted credit lines as an instrument for liquidity management as of 31 December 2019 and 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

31. RISK MANAGEMENT (Continued)

31.2. Liquidity Risk (Continued)

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

The Maturity mismatch report as at 31 December 2019 indicates high level of liquidity, especially in the period of the next 5 years.

The periodic GEP is negative for a period of over 5 years, 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.

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	Carrying amount	Gross amount	Up to 30 days	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months to 5 years	Over 5 years	Undefined maturity
ASSETS										
Cash	176,388	176,388	176,388	-	-	-	-	-	-	-
Financial placements held with banks	-	-	-	-	-	-	-	-	-	-
Other financial investments 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
LIABILITIES AND EQUITY										
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 and derivatives	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
Reserves, revaluation reserves	132,618	132,618	-	-	-	-	-	-	-	132,618
Gains	194,679	194,679	-	-	-	-	-	-	-	194,679
Equity	1,287,671	1,287,671	-	-	-	-	-	-	-	1,287,671
TOTAL LIABILITIES AND EQUITY	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

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NOTES TO THE FINANCIAL STATEMENTS

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Amounts stated in RSD thousand, unless indicated otherwise

31. RISK MANAGEMENT (Continued)

31.2. Liquidity Risk (Continued)

	Carrying amount	Gross amount	Up to 30 days	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months to 5 years	Over 5 years	Undefined maturity
ASSETS										
Cash	256,656	256,656	256,656	-	-	-	-	-	-	-
Financial placements held with banks	675,337	675,337	592,601	-	-	-	-	-	-	82,736
Other financial investments and derivatives	603,425	603,425	4,765	482,266	-	-	-	116,125	-	269
Receivables from finance lease activities	14,329,762	15,582,864	806,625	1,001,099	1,287,545	2,222,590	2,119,710	7,588,377	647,389	(90,471)
Repossessed leased assets and inventories	154,418	197,087	-	-	-	-	-	-	-	197,087
Intangible assets	18,957	47,223	-	-	-	-	-	-	-	47,223
Property, plant and equipment	4,309	19,294	-	-	-	-	-	-	-	19,294
Deferred tax assets	4,309	4,309	-	-	-	-	-	-	-	4,309
Other assets	84,593	142,642	4,091	69,822	118	496	-	-	-	68,115
TOTAL ASSETS	16,131,766	17,528,837	1,664,738	1,553,187	1,287,663	2,223,086	2,119,710	7,704,502	647,389	328,562
LIABILITIES AND EQUITY										
Borrowings from banks and other financial institutions	14,866,941	15,086,329	748,887	1,119,187	328,710	1,657,933	1,546,043	9,641,937	94,486	(50,854)
Provisions	5,282	5,282	-	-	-	-	-	-	-	5,282
Current tax liabilities	18,100	18,100	-	-	18,100	-	-	-	-	-
Other liabilities	175,209	175,209	66,239	99,882	69	-	-	-	-	9,019
Total liabilities	15,065,532	15,284,920	815,126	1,219,069	346,879	1,657,933	1,546,043	9,641,937	94,486	(36,553)
Stake capital	960,374	960,374	-	-	-	-	-	-	-	960,374
Unrealized gains/losses	2,492	2,492	-	-	-	-	-	-	-	2,492
Gains	103,368	103,368	-	-	-	-	-	-	-	103,368
Equity	1,066,234	1,066,234	-	-	-	-	-	-	-	1,066,234
TOTAL LIABILITIES AND EQUITY	16,131,766	16,351,154	815,126	1,219,069	346,879	1,657,933	1,546,043	9,641,937	94,486	1,029,681
Liquidity gap as at: - 31 December 2018		1,177,683	849,612	334,118	940,784	565,153	573,667	(1,937,435)	552,903	(701,119)
Cumulative liquidity gap		1,177,683	849,612	1,183,730	2,124,514	2,689,667	3,263,334	1,325,899	1,878,802	1,177,683

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

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For the year ended 31 December 2019

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31. RISK MANAGEMENT (Continued)**31.3. Market Risk**

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

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

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

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

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

31.3.1. Interest Rate Risk

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

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

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

The following table shows the Repricing Gap Report, i.e. the Company's exposure to the interest rate risk as at 31 December 2019. 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.

NOTES TO THE FINANCIAL STATEMENTS

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31. RISK MANAGEMENT (Continued)

31.3.1. Interest Rate Risk (Continued)

	Carrying amount	Up to 30 days	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months do 5 years	Over 5 years	Undefined maturity
ASSETS									
Cash	176,388	176,388	-	-	-	-	-	-	-
Financial placements held with banks	-	-	-	-	-	-	-	-	-
Other financial investments 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 lease 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)
LIABILITIES AND EQUITY									
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	132,618	-	-	-	-	-	-	-	132,618
Profit	194,679	-	-	-	-	-	-	-	194,679
Equity	1,287,671	-	-	-	-	-	-	-	1,287,671
TOTAL LIABILITIES AND EQUITY	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
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	-

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NOTES TO THE FINANCIAL STATEMENTS
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31. RISK MANAGEMENT (Continued)

31.3.1. Interest Rate Risk (Continued)

	Carrying amount	Up to 30 days	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months do 5 years	Over 5 years	Undefined maturity
ASSETS									
Cash	256,656	256,656	-	-	-	-	-	-	-
Financial placements held with banks	675,337	1,628	-	-	-	-	-	-	673,709
Other financial investments and derivatives	603,425	4,765	482,266	-	-	-	116,125	-	269
Receivables from finance lease activities	14,329,762	345,884	7,363,853	1,266,133	1,075,768	1,026,220	3,599,689	50,402	(398,187)
Repossessed lease assets and inventories	154,418	-	117,558	-	-	-	-	-	36,860
Intangible assets	18,957	-	-	-	-	-	-	-	18,957
Property, plant and equipment	4,309	-	-	-	-	-	-	-	4,309
Deferred tax assets	4,309	-	-	-	-	-	-	-	4,309
Other assets	84,593	-	-	-	-	-	-	-	84,593
TOTAL ASSETS	16,131,766	608,933	7,963,677	1,266,133	1,075,768	1,026,220	3,715,814	50,402	424,819
LIABILITIES AND EQUITY									
Borrowings from banks and other financial institutions	14,866,941	1,609,942	723,116	4,778,414	861,639	1,323,696	4,614,937	972,821	(17,624)
Provisions	5,282	-	-	-	-	-	-	-	5,282
Current tax liabilities	18,100	-	-	-	-	-	-	-	18,100
Other liabilities	175,209	-	-	-	-	-	-	-	175,209
Total liabilities	15,065,532	1,609,942	723,116	4,778,414	861,639	1,323,696	4,614,937	972,821	180,967
Stake capital	960,374	-	-	-	-	-	-	-	960,374
Reserves	2,492	-	-	-	-	-	-	-	2,492
Profit	103,368	-	-	-	-	-	-	-	103,368
Equity	1,066,234	-	-	-	-	-	-	-	1,066,234
TOTAL LIABILITIES AND EQUITY	16,131,766	1,609,942	723,116	4,778,414	861,639	1,323,696	4,614,937	972,821	1,247,201
GAP as at 31 December 2018		(1,001,009)	7,240,561	(3,512,281)	214,129	(297,476)	(899,123)	(922,419)	(822,382)
Cumulative GAP		(1,001,009)	6,239,552	2,727,271	2,941,400	2,643,924	1,744,801	822,382	-

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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, 2019 is RSD 3,926,198 thousand (December 31, 2018: RSD 3,532,373 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:

(In thousands RSD)	Total	0-18 months	18 months - 3 years	3 - 5 years	5 - 10 years
Currency	129,632	(24,720)	(3,969)		59,452
EUR	176,341	(21,348)	30,735	107,502	59,452
RSD	(46,709)	(3,372)	(34,704)	(8,633)	-

By changing the interest rate by 2.00%, the effect on the Company's revenues and expenditures would amount to RSD 129,632 thousand, which is less than the limit of 20% compared to equity, which is RSD 257,534 thousand. The percentage of limit use is 15,16% for change of -2%, and 50, 34% 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;
- 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.

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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:

<u>Sensitivity of net value of the AFS securities portfolio</u>	<u>Increase of 200bp</u>	<u>Decrease of 200bp</u>
2019		
As of December 31	(40,785)	44,285
Average for the period	(32,592)	35,268
Maximum for the period	(40,785)	44,285
Minimum for the period	(8,610)	8,923
2018		
As of December 31	(9,868)	10,689
Average for the period	(7,776)	8,182
Maximum for the period	(10,533)	11,043
Minimum for the period	(3,627)	3,728

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 2019, the Company took into account the compliance of foreign exchange risk indicators, this indicator exceeded the defined limit for six days in 2019, because the days of posting of announced placements based on financial leasing for the following day occurred (in 2018 - nine 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 2019 amounted to RSD 28,749 thousand, while the foreign exchange risk indicator was 2.23% of equity, and as at 31 December 2018 it amounted to RSD 27,425 thousand, while the indicator of foreign currency risk amounted to 2.57% of the Company's capital.

NOTES TO THE FINANCIAL STATEMENTS

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Amounts stated in RSD thousand, unless indicated otherwise

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 investments 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
LIABILITIES AND EQUITY			
Borrowings from banks and other financial institutions	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/losses	132,618	132,618	-
Gains	194,679	194,679	-
Equity	1,287,671	1,287,671	-
LIABILITIES AND EQUITY	15,954,285	1,319,840	14,634,445
Net foreign currency position 31 December 2019	-	(28,749)	28,749

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

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Amounts stated in RSD thousand, unless indicated otherwise

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 2018:

	Carrying amount	RSD	EUR
ASSETS			
Cash	256,656	256,656	-
Financial placements in banks	675,337	-	675,337
Other financial investments and derivatives	603,425	603,425	-
Receivables from finance lease activities	14,329,762	394,091	13,935,671
Repossessed leased assets and inventories	154,418	662	153,756
Intangible assets	18,957	18,957	-
Property, plant and equipment	4,309	4,309	-
Deferred tax assets	4,309	4,309	-
Other assets	84,593	19,532	65,061
TOTAL ASSETS	16,131,766	1,301,941	14,829,825
LIABILITIES AND EQUITY			
Borrowings from banks and other financial institutions	14,866,941	45,156	14,821,785
Provisions	5,282	5,282	-
Current tax liabilities	18,100	18,100	-
Other liabilities	175,209	139,744	35,465
Total liabilities	15,065,532	208,282	14,857,250
Stake capital	960,374	960,374	-
Unrealized gains/losses	2,492	2,492	-
Gains	103,368	103,368	-
Equity	1,066,234	1,066,234	-
LIABILITIES AND EQUITY	16,131,766	1,274,516	14,857,250
Net foreign currency position 31 December 2018	-	27,425	(27,425)

NOTES TO THE FINANCIAL STATEMENTS

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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 on the Company's result:

Scenario	Effect on 2019 Statement of profit and loss	Effect on 2018 Statement of profit and loss
10% depreciation of RSD	2,875	2,742
20% depreciation of RSD	5,750	5,484

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 2,875 thousand.

Foreign exchange risk indicator in the event of the depreciation of the dinar exchange rate by 10% would be 2.46%, and in the case of the depreciation of the dinar exchange rate by 20% would be 2.68%.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

*Amounts stated in RSD thousand, unless indicated otherwise***31. RISK MANAGEMENT (Continued)****31.4. Operational Risk (Continued)**

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

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

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

Operational risks comprise:

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

During 2019 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 2019 there were two operational risk cases and they can be shown in the following table:

Type of operational risk	Number of cases	Potential damage in EUR
Software adequacy	1	-
Inadequate business practice	1	17,000
Total	2	17,000

Upon return of lease asset it was determined that the year of production of lease asset is different from the year recorded in the documentation for processing and approving the client’s credit application.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

31. RISK MANAGEMENT (Continued)**31.5. Fair Value of Financial Assets and Liabilities**

At issue is a sale&lease back transaction in which the assets supplier and lessee are one and the same.

Planned corrective measure consists of consistent observance of the User Instructions for Attending Handover, Monitoring of Lease Asset and Collateral Review, based on which the Collections Department is required to be present at handover.

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

*Amounts stated in RSD thousand, unless indicated otherwise***31. RISK MANAGEMENT (Continued)****31.5. Fair Value of Financial Assets and Liabilities (Continued)**

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).

The following table shows the value of financial instruments stated at fair value in the balance sheet of the Company as at 31 December 2019 and 2018, measured on the basis of different information in accordance with the hierarchies within the prescribed Policies for fair value:

Fair value in thousand RSD 2019	Level 1	Level2	Level3	Total Fair Value	Carrying value
Other financial placements and derivatives	-	760,088	-	760,088	760,088
Total	-	760,088	-	760,088	760,088

Fair value in thousand RSD 2018	Level 1	Level2	Level3	Total Fair Value	Carrying value
Other financial placements and derivatives	-	603,425	-	603,425	603,425
Total	-	603,425	-	603,425	603,425

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 2019 and 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

31. RISK MANAGEMENT (Continued)

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

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	14,746,091	14,881,446	15,061,600
Borrowings from banks and other financial institutions	-	13,746,427	-	13,746,427	14,553,406
Total liabilities and equity	-	13,746,427	-	13,746,427	14,553,406
2018	Level 1	Level 2	Level 3	Total fair value	Carrying value
Cash	-	256,656	-	256,656	256,656
Financial placements held with Banks	-	675,337	-	675,337	675,337
Receivables from finance lease receivables	-	-	14,226,970	14,226,970	14,329,762
Total assets	-	931,993	14,226,970	15,158,963	15,261,755
Borrowings from banks and other financial institutions	-	13,310,174	-	13,310,174	14,866,941
Total liabilities and equity	-	13,310,174	-	13,310,174	14,866,941

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

Amounts stated in RSD thousand, unless indicated otherwise

32. CAPITAL MANAGEMENT (Continued)

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 2019 the Company's stake capital amounts to RSD 960,374 thousand (31 December 2018: 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 December 20, 2019, the Decision on Distribution of Retained Earnings from Previous Years and Plan of Distribution of Profits Earned in 2019 and 2020 was adopted. In accordance with the shareholders' decision, the Company's retained earnings from previous years in the total amount of RSD 103,368 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 2019.

Confirmations were sent to 2,522 clients lessees. Out of the total number of lessees, during reconciliation 19 clients disputed total receivables amounts in the amount of RSD 1,541 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 2019 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

*Amounts stated in RSD thousand, unless indicated otherwise***34. CASH AND CASH EQUIVALENTS**

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

	<u>2019</u>	<u>2018</u>
Current accounts in RSD (Note 15)	176,388	256,656
Foreign currency accounts (Note16)	<u>-</u>	<u>1,628</u>
Balance as at 31 December	<u>176,388</u>	<u>258,284</u>

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 2019.

Belgrade, 28 February 2020

Report prepared by:
Predrag Topalović

Legal representative:
Nebojša Janićijević

INTESA LEASING D.O.O. BEOGRAD

Annual report on business activities 2019

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1. BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE

1.1. Business activities

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

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

The Company finances: equipment, real estate, passenger and commercial vehicles. Selling channels are: direct selling channel (Intesa Leasing d.o.o. Beograd), 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 62/2013) the Company is classified as large legal entity.

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

The Company’s headquarters are in Belgrade, no. 7b, Milentija Popovica Street.

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

In 2019, the Company has achieved:

- Steady and sustainable growth in terms of portfolio, total assets and new products;
- Significant improvement of assets and portfolio quality;
- Collection process has been significantly improved and recently fully automated;

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.

In 2019, the organizational structure hasn't been changed.

The Company is comprised of:

- Departments,
- Offices, and
- Teams

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

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

Board of Directors of the Company: includes the Chairman and three 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:

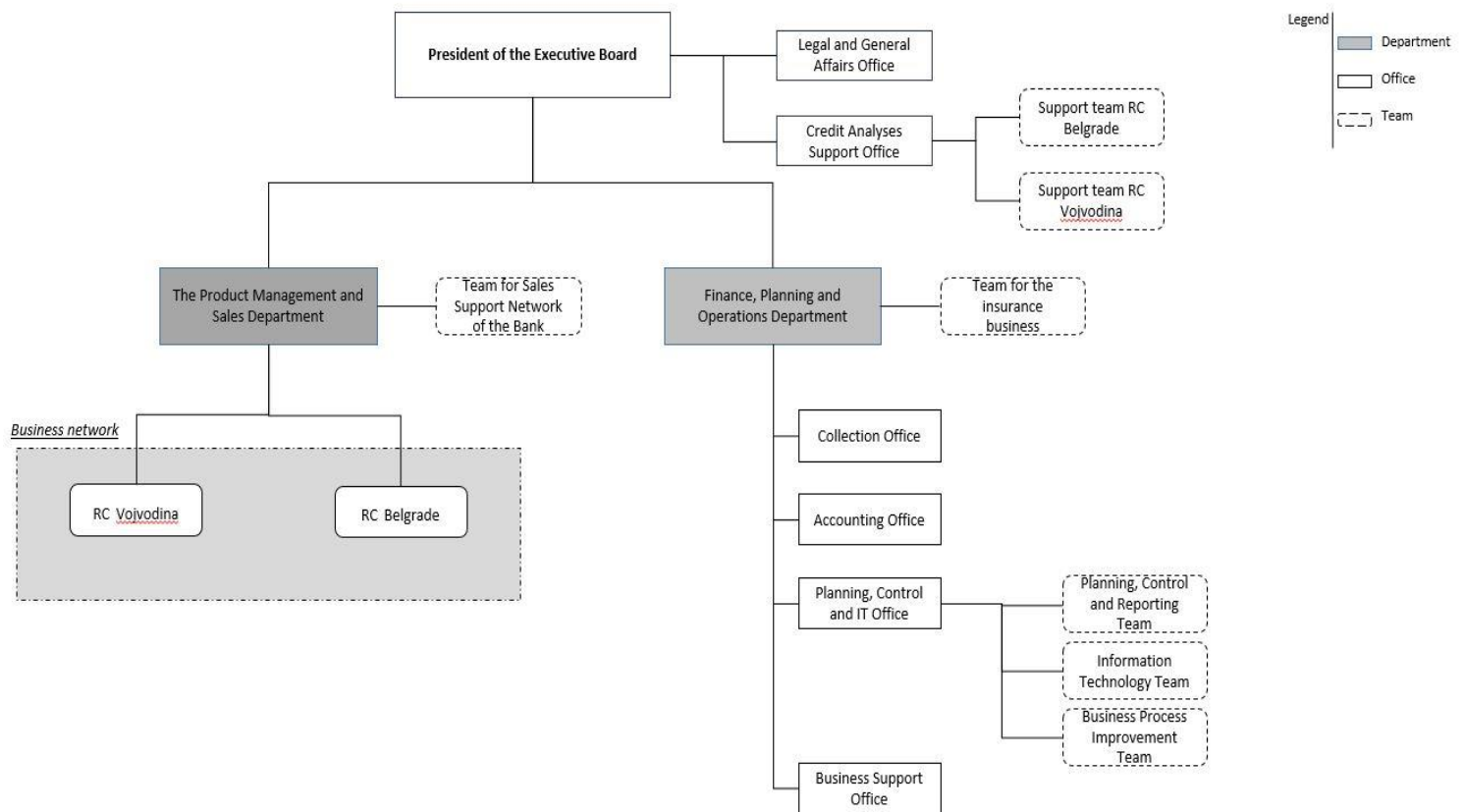
Middle management: Directors of Offices

Line management: Team leaders

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.

1.2. Organizational Structure - continued

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

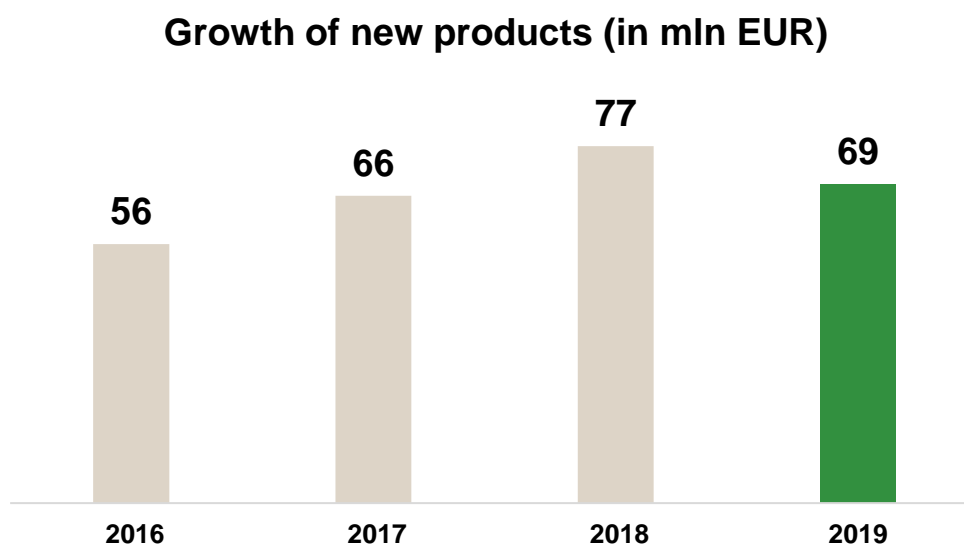


2. COMPANY'S OPERATIONS

2.1. Commercial activities

During the period from 2016 to 2019 the Company recorded growth in sales, while in 2019 it recorded a slight fall in sales. The total funded value of 2,042 new leasing contracts in 2019 amounted to EUR 69 million.

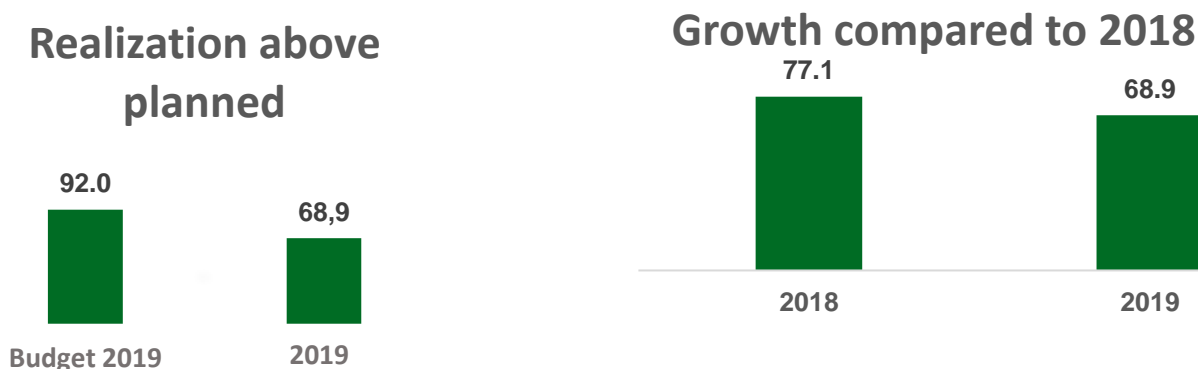
Figure 2. Financed value of new placements by years (in millions EUR):



The financed value of placements is below values planned for 2019 for 25.1%. The lower level of placements is the result of change in credit risk management strategy in a segment of passenger vehicles especially in fleet companies activity, as well as in financing new commercial vehicles for an already existing carrier of the portfolio, that caused lower production in 2019. This is transition year due to getting used to new credit policies and portfolio diversification. A few early repayments were the second reason for significant gap at the end of 2019. Client Al Dahra Srbija doo did the biggest early repayment in September 2019 amounted to RSD 551 million.

Comparing to the previous year, the Company recorded a fall in new placements growth rate of 10.6% (EUR 8.2 million). Financed value of placements in 2019 amounted to EUR 68.9 million, which is 25.1% (EUR 23 million) below planned values for 2019 (EUR 92 million).

Figure 3. Comparison of the realization of new placements according to the plan for 2019 and 2018 (in millions of EUR)

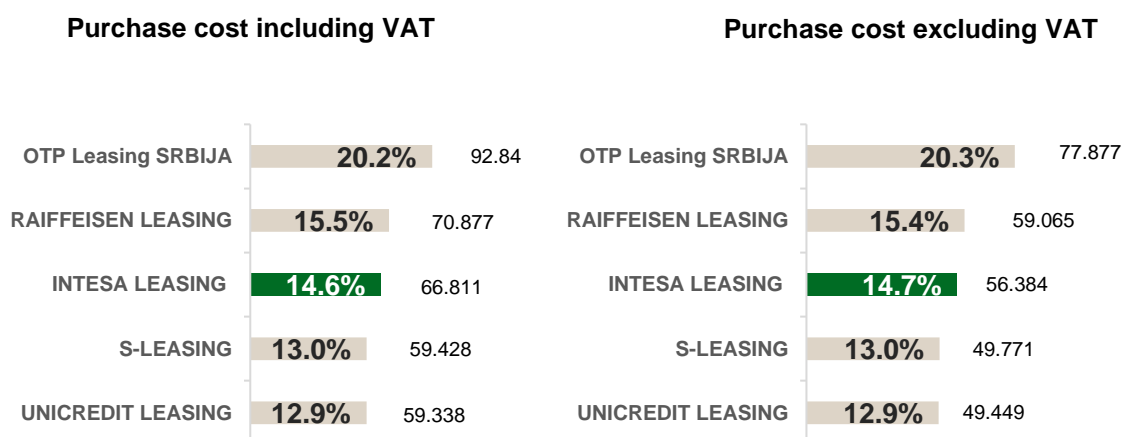


2.2. Market share

According to the data of the Association of Leasing Companies in Serbia (ALCS) for 3rd quarter of 2019, Intesa Leasing d.o.o. Beograd holds third place in terms of indicators of new placements: purchased value without VAT with market share of 14.7% and financed value with market share of 14.7%. Official ALCS data differs from internal data because the statistics of ALCS take into account outsourced contracts as new products.

Following graphs show market share of five biggest leasing companies at the end of 3rd quarter of 2019 according to indicators of new products: purchased value with VAT, purchased value without VAT and financed value. Values are shown in thousand EUR.

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

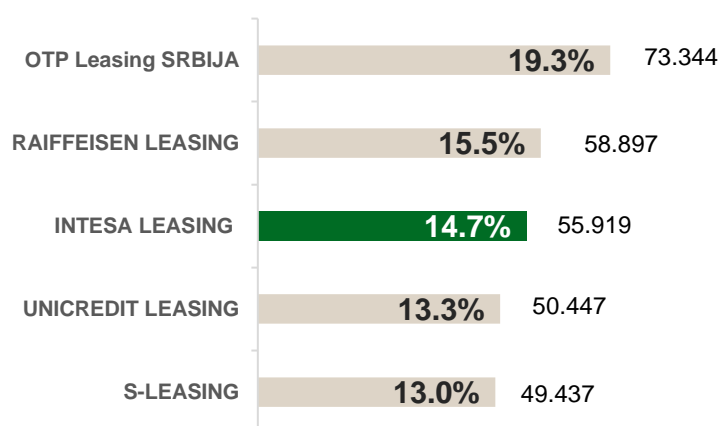


2.2. Market share (Continued)

According to the indicator Financed value the Company occupied third place with a share of 14.7% in the total realization of new placements on leasing market at the end of 3rd quarter of 2019. Total value of new placements on leasing market at the end of 3rd quarter of 2019 was EUR 379.4 million (2018: EUR 297.8 million), which represents growth of 27.4% (EUR 81.6 million).

Figure 5: Market share of five largest leasing companies according to indicator of financed value of new receivables (in thousands EUR)

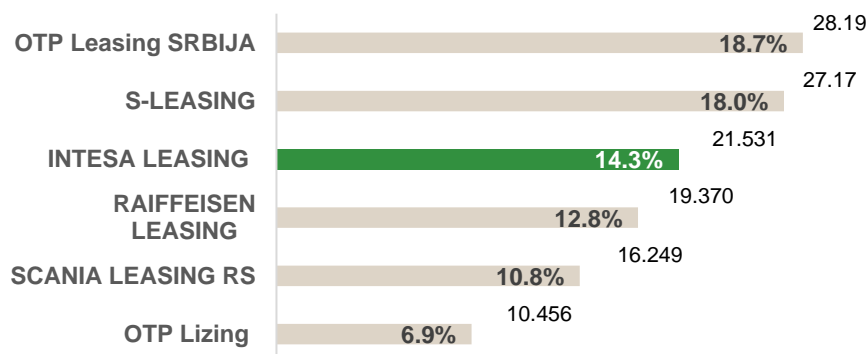
Financed value of new receivables



At the end of 3rd quarter of 2019, the Company occupied the third place in commercial vehicle segment and the first place in the equipment segment. In the passenger car segment, the Company occupied the sixth place.

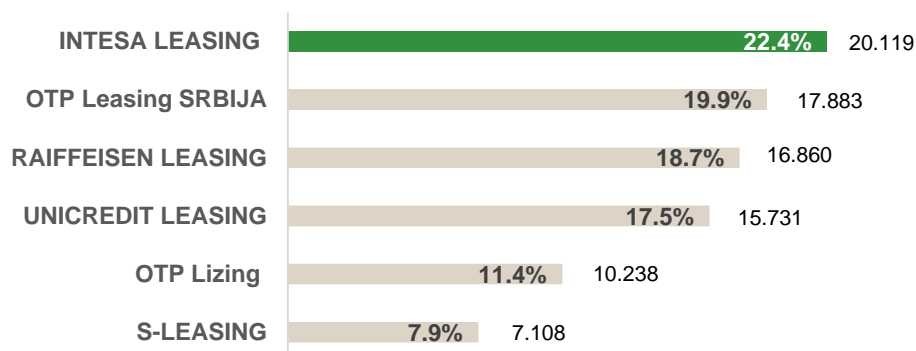
The following graphs show market share of five largest leasing companies at the end of 3rd quarter of 2019, according to the criteria of new products by type of leasing products (in thousands of EUR):

Commercial vehicles

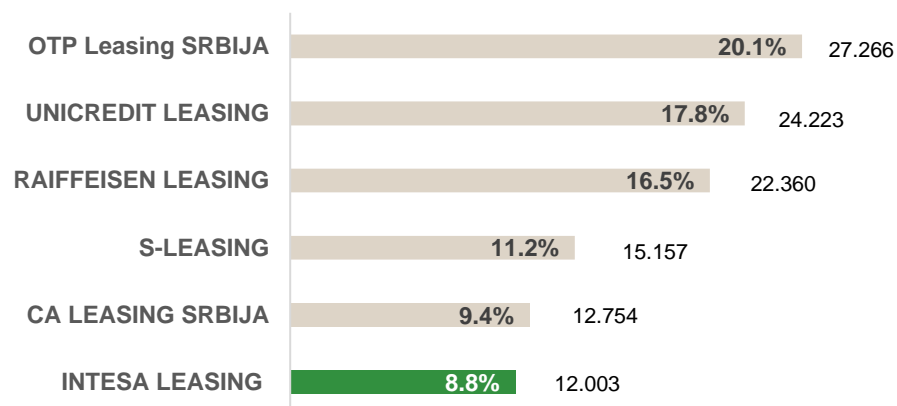


2.2. Market share (Continued)

Equipment



Passanger Vehicles



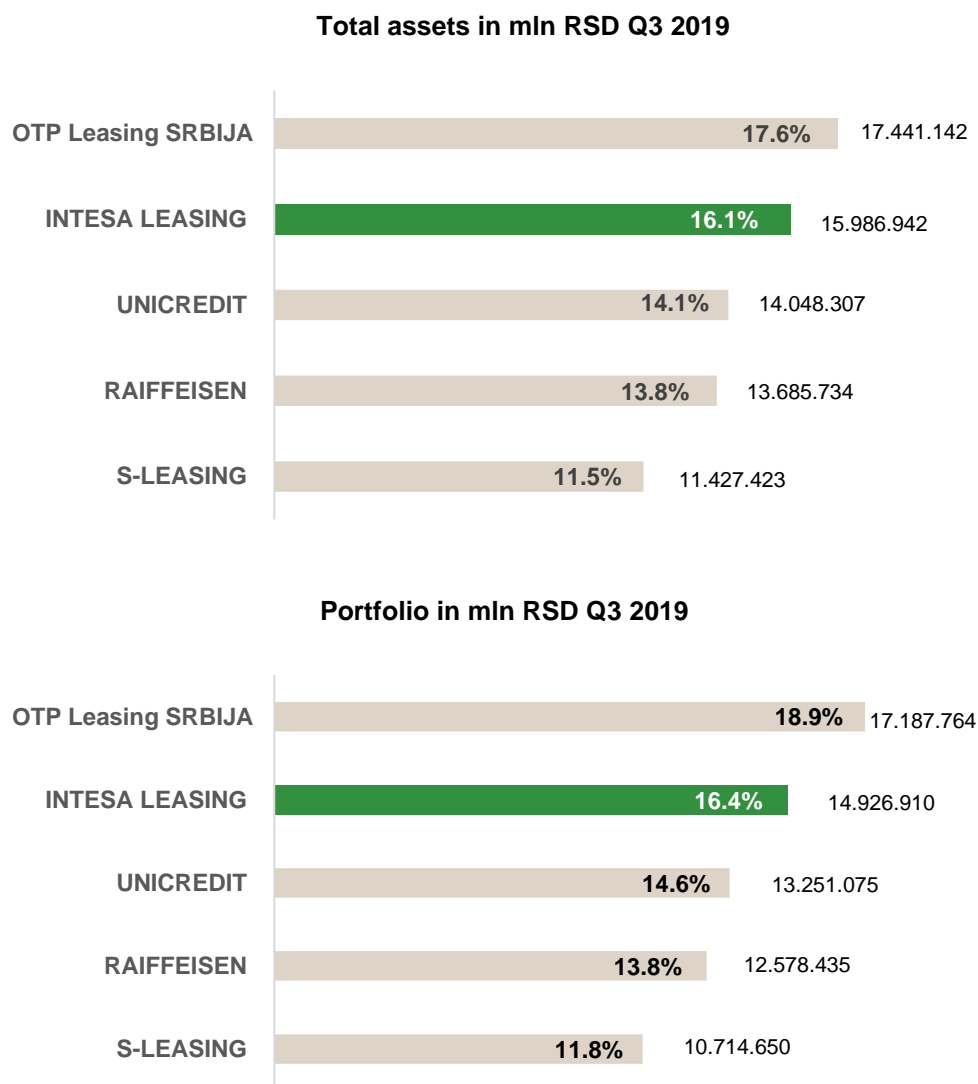
The realized average contracted interest rates on new loans in EUR amounted to 2.8% in 2019.

In 2019, the participation of the company's new products in the field of equipment financing has increased significantly.

2.2. Market share (Continued)

According to the data of the National Bank of Serbia for *Q3 of 2019*, Intesa Leasing d.o.o Beograd occupied second place regarding the level of total assets with share of 16.1%. Regarding the portfolio level the Company occupied second place with share of 16.4%.

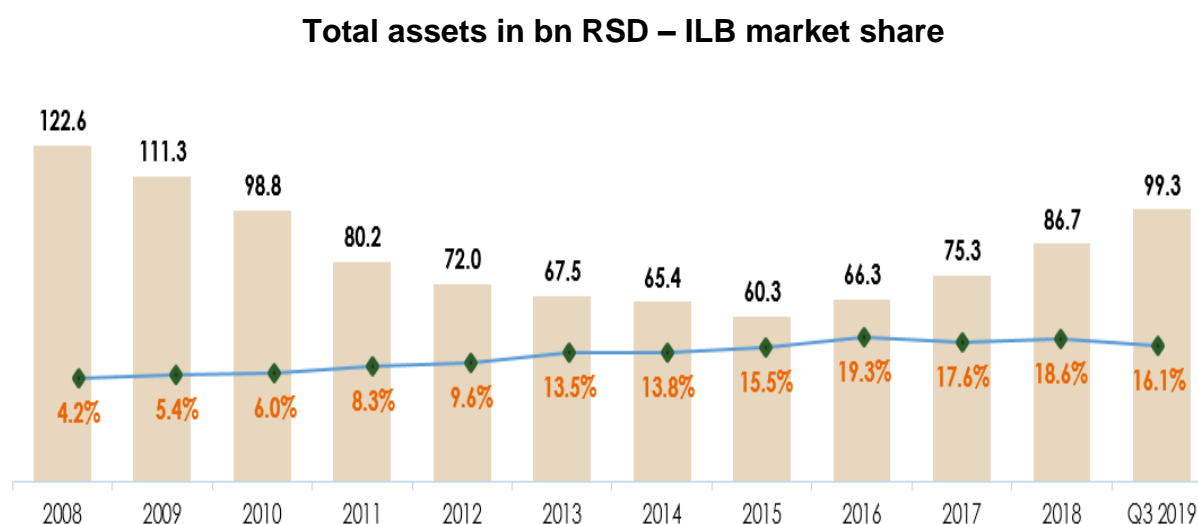
The following graphs show market share of five largest leasing companies at the end of 3rd quarter of 2019, according to the criteria of total assets and total receivables (in thousand RSD):



2.2. Market share (Continued)

Throughout the years the Company has been constantly increasing its market share on the leasing market, having at the end of 2019 a 4.3 times bigger market share than in the first years of doing business.

Figure 6. Market share Intesa Leasing d.o.o according to the amount of balance sheet assets for Q3 2019 (billions RSD)



The leasing market at the end of Q3 2019 was profitable. There was a positive result of the entire leasing market and growth indicators were: ROA 1.2% (Q3 2018: 1.93%) and ROE 11,3% (Q3 2018: 15.8%). Result after taxes at the end of Q3 2019 amounted to RSD 607 million. Compared to Q3 2018, when it amounted to RSD 1,047 million, the result after taxes decreased for 42%.

2.3. Financial position

At the end of 2019 the Company's total on-balance assets amounted to RSD 15,954,285 thousand. Comparing to previous year, when they amounted RSD 16,131,766 thousand, so that there was a decrease in balance sheet assets of 11.1% (RSD 177,481 thousand)

Realized average interest rate on assets amounted to 3.37%, while average interest rate on liabilities amounted to 1.04%.

At the end of 2019, leasing placements amounted to RSD 14,855,212 thousand and are above the previous year's level of placements (RSD 14,329,762 thousand) for 3.73% (RSD 555,450 thousand).

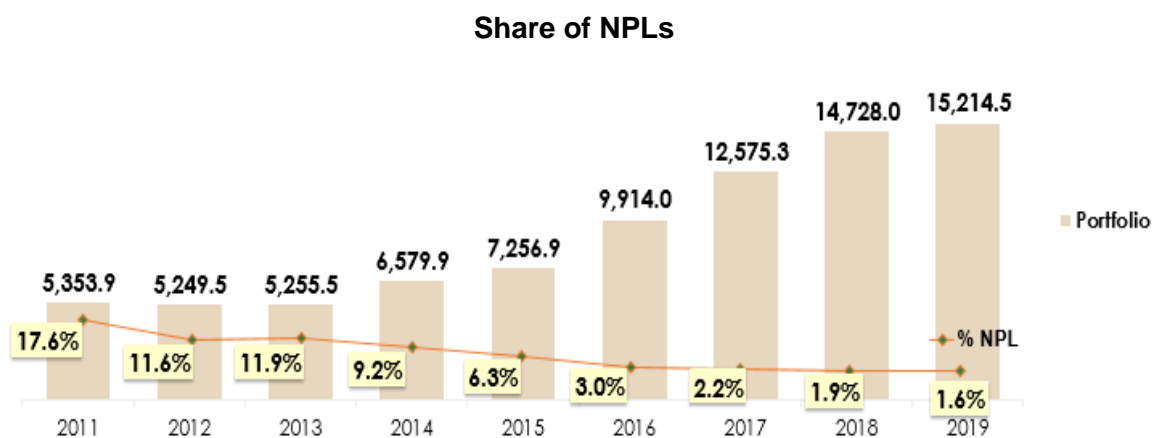
Segment of equipment is above last year's level, on the other hand the Company in the other segments of placements recorded a slight fall. In 2020, further strengthening and growth is expected, both within the regional centers, as well as within the external channels of sales and sales through the network of Banca Intesa a.d. Belgrade, especially within the segment of passenger vehicles, which would also improve the balance of placements in this position.

The Company has significantly improved the quality of its portfolio over the years. In 2019, the level of NPL was reduced to historically lowest level since the start of business operations.

Indicators of the quality of portfolio at the end of 2019 are as follows:

- Share of NPLs in total leasing exposure is constantly falling and at the end of 2019 amounted to 1.6%. At the end of 2018 share of NPLs in total leasing exposure amounted to 1.9%
- coverage ratio amounted to 1.9%. At the end of previous year, it amounted to 2.3%.
- NPLs provision coverage ratio amounted to 88.8%. At the end of previous year, it amounted to 86.1%.

Figure 7. Share of bad placements (NPL-a) in total value of placements (gross long-term receivables) presented in millions RSD



2.3. Financial position (continued)

The decrease in inventory on 31 December 2019, is a result of resolving the disputes of terminated contracts at the end of 2018. A considerable part of the leased assets taken over was sold to third parties in January and February 2019, and thus the level of inventory declined, but it is still proactively working to further reduce inventory levels.

According to data from the Credit bureau as on 31 December 2019, the Company's share in the total amount of placements that are overdue more than 90 days amounted to 1.4% and is significantly below the value for the leasing market of 4.9%.

Placements overdue more than 90 days	2018	2019
Leasing market	7.1%	4.9%
Intesa Leasing d.o.o. Beograd	1.8%	1.4%

2.4. Result of business activities

Besides further improving the quality of the portfolio, the Company records after tax growth results from year to year.

As at the end of 2019, the Company generated the biggest profit after tax in the amount of RSD 194,679 thousand, which is above last year's level of profit (RSD 177,117 thousand) for 9% (RSD 17,562 thousand).

The company recorded a reduction in operating costs, shown by Cost/Income ratio. This ratio amounted to 46.3% for 2019, compared to 40% in 2018.

As at 31 December 2019 the Company had 43 employees, which represents an increase of 1 employee comparing to the end of 2018 (42 employees).

2.5. Internal Audit

During 2019 two internal audits were conducted, in accordance with the internal audit plan of the Company. The Internal Audit was implemented in the IT area and credit portfolio management and credit approval process.

Unsolved recommendations of internal audit will be implemented in accordance with plan activities by the end of May 2020.

2.6. Tax Audit

During 2019 there were no tax audits of the Company by the Tax Administration of the Republic of Serbia.

3. PROTECTION OF THE ENVIRONMENT

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

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

The Procedure is being applied to the management of environmental risks related to the clients' (legal entities or entrepreneurs) activities financed by the Company when approving new finance leasing contracts. If the request for financing relates to financing the activities from the List of activities that the Company does not support, the Company rejects such financing 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 2019.

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;
- More successful business operations and decrease of cost to income ratio;
- 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** as a means of communication with the suppliers, dealers and clients and means for improving sales activities. The first implementation of the portal was at the car show in March 2019. That ensured an easier and faster way of approving new requests for financial leasing. Portal can 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 such calculation, additional profitability reports are planned according to various criteria such as the lessor, lease period, expense location.
- **Allocation of credit line resources** is the newly implemented process in BPM, that works by typing requests for financing based on parameters such as the financing amount, sort of leasing item and type of interest. Being processed a counselor gets a list of creditors that accomplished conditions for financing. The counselors used to choose the credit party as the source of funds a single placement, before. Choosing source was very difficult, due to the existence of numerous credit parties, as well as specificity of requests for financing and numerous conditions for financing given by creditors and the way of justifying using taken assets. Choosing a method of financing is very simplified by developing this process. Now, the councils choose creditor while the system checks the suitability of candidates for financing in accordance with criteria, that were given from creditors (such as leasing object, geographic area...). The system recognized matching the type of interest and maturity match of placements and source of funds.

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

- **Portal for individuals** as a way of improving sales activities in the population segment. At the moment, tools are being developed in order to improve operating efficiency and the possibility of individuals to make a request for financing from their home and to get an approval immediately.
- **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.
- **AML process:** Currently, the process is being upgraded in accordance with the recommendations of the National Bank of Serbia.

7. PURCHASE OF TREASURY STAKES

The Company did not purchase any of its treasury stakes during 2019.

8. BRANCH EXISTENCE

The Company had one registered branch in 2019 in Novi Sad.

9. FINANCIAL INSTRUMENTS

During 2019, 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 2019 amounted to RSD 760,088 thousand.

10. FINANCIAL RISK MANAGEMENT

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

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

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

- Credit risk,
- Liquidity risk,
- Market risk (interest rate risk, FX rate risk and other market risks), and
- Operating risk.

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

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

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

The Company has developed a comprehensive risk management system by introducing policies and procedures, as well as by establishing limits for risk levels acceptable to the Company. Specific risks, such as foreign exchange rate risk, the Company monitors on 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. With the adoption of this Decision the previous decision adopted on December 27, 2017 ceased to be effective.

11. RISK EXPOSURE

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

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

	2019	Share in total net placements	2018	Share in total net placements
Performing	14.977.575	98,44%	14,346,931	99,73%
Past due	6.797	0,05%	-	0,00%
Unlikely to pay	10.710	0,07%	22,261	0,15%
Doubtful	219.408	1,44%	16,830	0,12%
Total	15.214.490	100,00%	14,386,022	100,00%

As we can see, for both years under review, the share of NPLs is at a low level, amounting to 0.19% and 0.27% for 2019 and 2018 respectively.

Through continuous monitoring of this risk, the Company successfully decreased NPLs share in 2019 comparing to previous year. Credit risk has the satisfactory level regarding the prescribed limits.

11. RISK EXPOSURE (Continued)

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

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

	2019			2018		
	Assets	Liabilities and equity	Cumulative gap	Assets	Liabilities and equity	Cumulative gap
Gross exposure to 30 days	967,741	329,813	641,928	1,650,136	813,581	836,555
Gross exposure of 1 to 3 months	963,173	455,182	1,149,919	1,485,095	1,198,688	1,122,962
Gross exposure of 3 to 6 months	1,240,631	1,003,943	1,386,607	1,190,914	339,557	1,974,319
Gross exposure of 6 to 12 months	2,328,111	2,270,024	1,444,694	2,055,914	1,614,154	2,416,079
Gross exposure of 12 to 18 months	2,109,652	1,667,023	1,887,323	1,983,353	1,511,243	2,888,189
Gross exposure of 18 months to 5 years	8,341,512	8,193,652	2,035,183	7,308,421	9,530,690	665,920
Gross exposure over 5 years	255,429	773,659	1,516,953	622,275	94,172	1,194,023
Gross amount without a defined maturity	207,988	1,264,989	-	328,562	1,029,681	-
Gross exposure - total	16,414,237	15,954,285	459,952	16,624,670	16,131,766	492,904

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.

11. RISK EXPOSURE (Continued)

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

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

The exposure to interest rate risk depends on the ratio of the interest-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 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 would be RSD 129,632 thousand, which is within the limit prescribed by the Procedure for interest rate risk management.

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

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

On 31 December 2019 the Company had a long position in the amount of RSD 28,749 thousand, which is 2.23 % 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.

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

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

During 2019, the Company recorded two operational risk incidents, whose effect on the income statement was EUR 17,00. Out of two reported operational risk cases one was related to software adequacy and one to inadequate business practice. Planned corrective action based on these operational risk cases is the introduction of 'knock out' criteria into a new version of the Credit Risk Management Procedure, as well as improving the analysis of customers and suppliers of the client that is a leasing user.

11. RISK EXPOSURE (Continued)

General estimate of the Company's risk exposure for 2019 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, 28 February 2020

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