INTESA LEASING D.O.O. BEOGRAD

FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2021

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ANNUAL BUSINESS REPORT for 2021

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This is English translation of the Report originally issued in Serbian language (For management purposes only)

INDEPENDENT AUDITORS' REPORT

TO THE OWNER OF INTESA LEASING D.O.O. BEOGRAD

Opinion

We have audited the accompanying financial statements of Intesa Leasing d.o.o. Beograd (hereinafter: the Company), which comprise the balance sheet as at 31 December 2021, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Law and regulations of the National bank of Serbia governing the financial reporting of financial lessors in the Republic of Serbia.

Basis for Opinion

We conducted our audit in accordance with Standards on Auditing applicable in the Republic of Serbia. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Serbia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Other information included in the Company's Annual Business Report

Other information consists of the information included in the Annual business report other than the financial statements and our auditor's report thereon. Management is responsible for the preparation of other information in accordance with the legal requirements of the Republic of Serbia.

Our opinion on the financial statements does not cover the Other information. 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. In addition, we assessed whether the other information has been prepared, in all material respects, in accordance with Law on Accounting of Republic of Serbia, in particular, whether the other information complies with the Law on Accounting of Republic of Serbia in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
2. the other information is prepared in accordance with requirements of the Law on Accounting of Republic of Serbia.

Other information included in the Company's Annual Business Report (continued)

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Other Matters

The financial statements of the Bank for the year ended on 31 December 2020 were audited by another auditor who expressed unmodified opinion on those statements on 5th of March 2021.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Accounting Law and regulations of the National bank of Serbia governing the financial reporting of financial lessors 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.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Standards on Auditing applicable 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 Standards on Auditing applicable in the Republic of Serbia, we exercise professional judgment and maintain professional skepticism 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.

Auditors' responsibilities for the audit of the financial statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management 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.

Belgrade, 24 February 2022

PREDUZEĆE ZA REVIZIJU Ernst & Young d.o.o. BEOGRAD

Nikola Ribar
Authorized Auditor
Ernst & Young d.o.o. Beograd

Annex 1

To be filled in by the financial leasing provider		
ID number: 17492713	**Activity Code:** 6491	TAX ID: 103023875
Name: Intesa Leasing doo Belgrade		
Headquarters: Belgrade, Milentija Popovića 7b		

BALANCE SHEET
as of 31.12.2021.

(in thousands of dinars)

Account group, account	Position	AOP code	Note number	Amount of the current year	Amount of previous year	
					The final state	Initial state
1	2	3	4	5	6	7
	Assets					
24	Cash and cash equivalents	0001		171,874	2,508,871	
23 (except 237, as well as part of account 239), as well as part 289 and part of account 492 as a deductible	Short-term financial assets	0002		2,157,445	1,796,406	
10	Inventory	0003				
20 and 21, as well as parts of accounts 280 and 281 and part of account 492 as a deductible item	Short - term receivables from financial leasing	0004		7,012,887	6,013,363	
29 and part of the account 284	Operating lease receivables	0005				
01	Intangible assets	0006		23,268	21,790	
02 (except 024 and parts 027, 028 and 029), part 11, part 12 and part 13	Property, plant and equipment	0007		18,184	28,514	
05	Funds given in the law	0008				
06	Funds given in operating leases	0009				
04, as well as parts of accounts 280 and 281 and part of account 492 as a deductible item	Long-term receivables from financial leasing	0010		12,710,805	11,360,616	
03 (except 030, 031 and part of account 039), as well as part 289 and part of account 492 as a deductible item	Long-term financial assets	0011				
031 and part of account 039	Investments in associates and joint ventures	0012				
030 and part of account 039	Investments in subsidiaries	0013				

Account group, account	Position	AOP code	Note number	Amount of the current year	Amount of previous year	
					The final state	Initial state e
1	2	3	4	5	6	7
024 and parts of accounts 027, 028 and 029 and parts of accounts 11, 12 and 13	Investment property	0014				
223	Current tax assets	0015				
288	Deferred tax assets	0016		3,030	3,786	
14	Fixed assets held for sale and assets of discontinued operations	0017				
15, 16, 22 (except 223), 25, 26, 27, 283, 285, 287 and part 289	Other assets	0018		109,480	91,083	
	TOTAL ASSETS (from 0001 to 0018)	0019		22.206.973	21,824,429	
	Liabilities					
30 and 00	CAPITAL Equity and shares	0401		960,374	960,374	
237	Own shares and shares	0402				
34	Gain	0403		163,010	106,679	
35	Loss	0404				
32 and 33 – demand balance	Reserves	0405		412,538	317,480	
32 and 33 – Debt Balance	Unrealized losses	0406				
41 (except 419), part 44, part 490 and part 282 as deductible	OBLIGATIONS Long-term financial liabilities	0407		16,518,008	15,380,657	
Section 44, Part 490 and Part 282 as deductible	Short-term financial liabilities	0408		3,953,038	4,937,416	
40	Reservations	0409		8,480	12,521	
467	Liabilities based on assets held for sale and assets suspended for sale	0410				
481	Current tax liabilities	0411		22,599	748	
498	Deferred tax liabilities	0412				
419, 43, 45, 46 (except 467), 47, 48 (except 481) и 491, 493, 494, 497 и 499	Other obligations	0413		168,926	108,554	
	TOTAL LIABILITIES (from 0407 to 0413)	0414		20,671,051	20,439,896	
	Participation without the right of control	0415				
	TOTAL CAPITAL (0401 - 0402 + 0403 - 0404 + 0405 - 0406 + 0415) ≥ 0	0416		1,535,922	1,384,533	
	TOTAL LACK OF CAPITAL (0401 - 0402 + 0403 - 0404 + 0405 - 0406 + 0415)	0417				
	TOTAL LIABILITIES (0414 + 0416 - 0417)	0418		22,206,973	21,824,429	

In Belgrade,
on February 24, 2022.

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

Legal representative of the financial leasing provider

Anex 2

To be filled in by the financial leasing provider		
ID number: 17492713	Acivity code: 6491	TAX ID: 103023875
Name: Intesa Leasing doo Belgrade		
Headquarters: Belgrade, Milentija Popovića 7b		

INCOME STATEMENT

in the period from 01.01.2021. to 31.12.2021.

(in thousands of dinars)

Account group, account	Position	AOP code				Note number	Current year	Previous year
1	2	3				4	5	6
600, 650, 653 and 656	Interest income	1	0	0	1		532,579	460,824
50, 550, 553 and 556	Interest expenses	1	0	0	2		167,385	179,341
	Net interest income (1001 - 1002)	1	0	0	3		365,194	281,483
	Net interest expenses (1002 - 1001)	1	0	0	4			
61 + 62	Revenues from operating leases and rent	1	0	0	5			
Part of 514	Operating lease and rental expenses	1	0	0	6			
60, except 600	Other income from financial leasing	1	0	0	7		129,043	120,035
513, part of 514	Other expenses on the basis of financial leasing	1	0	0	8		64,945	52,534
63	Profit from sale of leased assets and other assets	1	0	0	9			
571	Losses from sale of leased assets and other assets	1	0	1	0			
(65 - 650 - 653 - 656 - 659 + 66) - (55 - 550 - 553 - 556 - 559 + 56)	Net income from exchange rate differences and the effects of the contracted currency clause	1	0	1	1			
(55 - 550 - 553 - 556 - 559 + 56) - (65 - 650 - 653 - 656 - 659 + 66)	Net expense from exchange rate differences and the effects of the agreed currency clause	1	0	1	2		3,361	781
(682 + 683 + део 688) - (582 + 583 + except 588)	Net income from impairment of receivables from leasing and financial assets	1	0	1	3			
(582 + 583 + part of 588) - (682 + 683 + part of 688)	Net expense from impairment of receivables on the basis of leasing and financial assets	1	0	1	4		54,620	48,387
(684 + 686 + 687 + part of 688) - (584 + 586 + 587 + part of 588)	Net income from impairment of assets leased out under operating leases and rent, leased assets and assets taken over in exchange for uncollected receivables and receivables from leases and sales	1	0	1	5			
(584 + 586 + 587 + part of 588) - (684 + 686 + 687 + part of 688)	Net expense on impairment of assets leased and rent, leased assets and assets taken in exchange for uncollected receivables and receivables on lease and sale	1	0	1	6		9,690	11,197
672 + 677 - 572 - 577	Net income from investments in subsidiaries, associates, joint ventures, securities and financial derivatives	1	0	1	7			

Account group, account	Position	AOP code	Note number	Current year	Previous year
1	2	3	4	5	6
572 + 577 - 672 - 677	Net loss on investments in subsidiaries, associates, joint ventures, securities and financial derivatives	1018			
64 (except 642) + 67 (except 672, 674 и 677)	Other operating income	1019		63,177	44,968
540 + 541	Depreciation	1020		14,622	15,633
	TOTAL NET OPERATING INCOME (1003 - 1004 + 1005 - 1006 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020) ≥ 0	1021		410,176	317,954
	TOTAL NET OPERATING EXPENSES (1003 - 1004 + 1005 - 1006 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020)	1022			
52	Costs of salaries and fringe benefits (gross)	1023		132,848	117,917
642 + 659 + 674 + 680 + 681 + 685 + 689	Other income	1024		3,115	1,063
51 (except 513 и 514) + 53 + 54 (except 540 и 541) + 559 + 57 (except 572 и 577) + 580 + 581 + 585 + 589	Other expenses	1025		70,802	64,246
	PROFIT BEFORE TAX (1021 - 1022 - 1023 + 1024 - 1025) ≥ 0	1026		209,641	136,854
	LOSS BEFORE TAX (1021 - 1022 - 1023 + 1024 - 1025) < 0	1027			
721	Income tax	1028		45,876	30,252
722	Profit from deferred taxes	1029			77
722	Deferred tax loss	1030		755	
	PROFIT AFTER TAX (1026 - 1027 - 1028 + 1029 - 1030) ≥ 0	1031		163,010	106,679
	LOSS AFTER TAX (1026 - 1027 - 1028 + 1029 - 1030) < 0	1032			
69 - 59	Net operating profit of discontinued operations	1033			
59 - 69	Net operating loss of discontinued operations	1034			
	RESULT OF THE PERIOD - PROFIT (1031 - 1032 + 1033 - 1034) ≥ 0	1035			
	RESULT OF THE PERIOD - LOSS (1031 - 1032 + 1033 - 1034) < 0	1036			
	Profit belonging to the parent entity	1037			
	Profit belonging to owners without control rights	1038			
	Loss belonging to the parent entity	1039			
	Loss belonging to owners without the right of control	1040			
	EARNINGS PER SHARE				

Account group, account	Position	AOP code				Note number	Current year	Previous year
1	2	3				4	5	6
	Basic earnings per share (in dinars without money)	1	0	4	1			
	Reduced (diluted) earnings per share (in dinars without money)	1	0	4	2			

In Belgrade,
on February 24, 2022.

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

Legal representative of the financial leasing

Anex 3

To be filled in by the financial leasing provider		
ID number: 17492713	Activity code: 6491	TAX ID: 103023875
Name: Intesa Leasing doo Belgrade		
Headquarters: Belgrade, Milentija Popoviča 7b		

REPORT ON OTHER RESULT

in the period from 01.01. to 31.12.2021.

(in thousands of dinars)

Account group, account	Position	AOP code				Note number	Current code	Previous year
1	2	3				4	5	6
	PROFIT FOR THE PERIOD	2	0	0	1		163,010	106,679
	LOSS OF THE PERIOD	2	0	0	2			
	Other period result							
	Components of other result that cannot be reclassified to profit or loss:							
330	Increase in revaluation reserves based on intangible assets and fixed assets	2	0	0	3			
330	Reduction of revaluation reserves based on intangible assets and fixed assets	2	0	0	4			
333	Actuarial gains	2	0	0	5			
333	Actuarial loss	2	0	0	6			
332	Positive effects of changes in the value of equity instruments that are measured at fair value through other results	2	0	0	7			
332	Negative effects of changes in the value of equity instruments that are measured at fair value through other results	2	0	0	8		11,621	9,817
338	Unrealized gains on instruments for hedging of equity securities measured at fair value through profit or loss	2	0	0	9			
338	Unrealized gains on instruments for hedging of equity securities measured at fair value through profit or loss	2	0	1	0			
338	Unrealized gains based on financial liabilities of financial leasing providers valued at fair value through income statement resulting from a change in the credit worthiness of a financial leasing provider	2	0	1	1			
338	Unrealized losses based on financial liabilities of financial leasing providers valued at fair value through the income statement resulting from a change in the credit worthiness of the financial leasing provider	2	0	1	2			

Account group, account	Position	AOP code				Note number	Current code	Previous year
1	2	3				4	5	6
338	Positive effects of value changes based on other components of other results that cannot be reclassified in gain or loss	2	0	1	3			
338	Negative effects of value changes based on other components of other results that cannot be reclassified in gain or loss	2	0	1	4			
332	**Components of other results that may be reclassified in gain or loss:** Positive effects of changing the value of debt instruments valued at fair value through other results	2	0	1	5			
332	Negative effects of changing the value of debt instruments that are valued at fair value through other results	2	0	1	6			
337	Gains on cash flow hedging instruments	2	0	1	7			
337	Losses from instruments intended to hedge against cash flow risks	2	0	1	8			
331	Unrealized gains on transactions and balances in foreign currencies and translation of results and financial positions of foreign operations	2	0	1	9			
331	Unrealized losses due to the calculation of transactions and balances in foreign currencies and the translation of results and financial positions of foreign operations	2	0	2	0			
336	Unrealized gains on instruments intended to hedge against the risk of net investment in foreign operations	2	0	2	1			
336	Unrealized losses on instruments intended to hedge against the risk of net investment in foreign operations	2	0	2	2			
339	Unrealized gains on other hedging instruments	2	0	2	3			
339	Unrealized losses on other hedging instruments	2	0	2	4			
339	Positive effects of changes in value based on other components of other results that may be reclassified to profit or loss	2	0	2	5			
339	Negative effects of changes in value based on other components of other results that may be reclassified to profit or loss	2	0	2	6			
33	Taxable profit relating to other results of the period	2	0	2	7			
33	Tax loss relating to other results of the period	2	0	2	8			
	Total positive other result of the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2019 - 2020 + 2021 - 2022 + 2023 -2024 + 2025 - 2026 + 2027 - 2028) ≥ 0	2	0	2	9			
	Total negative other period result (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2019 - 2020 + 2021 - 2022 + 2023 -2024 + 2025 - 2026 + 2027 - 2028) < 0	2	0	3	0		11,621	9,817

Account group, account	Position	AOP code				Note number	Current code	Previous year
1	2	3				4	5	6
	TOTAL POSITIVE RESULT OF THE PERIOD (2001 - 2002 + 2029 - 2030) ≥ 0	2	0	3	1		151,389	96,862
	TOTAL NEGATIVE RESULT OF THE PERIOD (2001 - 2002 + 2029 - 2030) < 0	2	0	3	2			
	Total positive result of the period belonging to the parent entity	2	0	3	3			
	Total positive result of the period belonging to owners without the right of control	2	0	3	4			
	Total negative result of the period belonging to the parent entity	2	0	3	5			
	Total negative result of the period belonging to owners without the right of control	2	0	3	6			

In Belgrade,
on February 24, 2022.

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

Legal representative of the financial leasing provider

To be filled in by the financial leasing provider		
ID number: 17492713	Activity code: 6491	TAX ID: 103023875
Name of financial leasing provider: Intesa Leasing doo Belgrade		
Headquarters of the financial leasing provider: Belgrade, Milentija Popovića 7b		

Anex 5

REPORT ON CHANGES IN EQUITY
in the period from 01.01. to 31.12.2021. years

Ordinal no.	DESCRIPTION	AOP	Equity and shares (group counts 30, except 302)	AOP	Own shares (account 237)	AOP	Emission premium (account 302)	AOP	Reserves (account group 32)	AOP	Revaluation reserves (group calculates 33 demand balances)	AOP	Revaluation reserves (group calculates 33 debt balances))	AOP	Profit (account group 34)	AOP	Loss (account group 35)	AOP	Participation without the right of control	AOP	Total(q. 2-3 + 4 + 5 + 6-7 + 8-9 + 10) ≥ 0	AOP	Total (q. 2-3 + 4 + 5 + 6-7 + 8-9 + 10) < 0
	1		2		3		4		5		6		7		8		9		10		11		12
1	Opening balance on January 1 of the previous year	4001	960,374	4033	-	4065	-	4097	103,368	4129	29,250	4147	-	4165	194,679	4203	-	4241	-	4285		4291	1,287,671
2	Effects of the first application of new IFRS – increase	4002	-	4034	-	4066	-	4098	-	4130	-	4148	-	4166	-	4204	-	4242	-	x	x	x	x
3	Effects of the first application of new IFRS – reduction	4003	-	4035	-	4067	-	4099	-	4131	-	4149	-	4167	-	4205	-	4243	-	x	x	x	x
4	Change in accounting policies and correction of material errors in the previous year - increase	4004	-	4036	-	4068	-	4100	-	4132	-	4150	-	4168	-	4206	-	4244	-	x	x	x	x
5	Change in accounting policies and correction of material errors in the previous year - reduction	4005	-	4037	-	4069	-	4101	-	4133	-	4151	-	4169	-	4207	-	4245	-	x	x	x	x
6	Adjusted starting balance on January 1 of the previous year (ordinal number 1 + 2-3 + 4-5)	4006	960,374	4038	-	4070	0	4102	103,368	4134	29,250	4152	0	4170	194,679	4208	0	4246	0	4286		4292	1,287,671
7	Overall positive other result of the period	x	x	x	x	x	x	x	x	4135	-	4153	-	x	x	x	x	4247	-	x	x	x	x
8	Total negative other result of the period	x	x	x	x	x	x	x	x	4136	9,817	4154	-	x	x	x	x	4248	-	x	x	x	x
9	Profit for the current year	x	x	x	x	x	x	x	x	x	x	x	x	4171	106,679	x	x	4249	-	x	x	x	x
10	Loss for the current year	x	x	x	x	x	x	x	x	x	x	x	x	x	x	4209	0	4250	-	x	x	x	x
11	Transfer from reserves to results due to cancellation of reserves –	x	x	x	x	x	x	x	x	x	x	x	x	4172		4210	x	4251	-	x	x	x	x

Ordinal no.	DESCRIPTION	AOP	Equity and shares (group counts 30, except 302)	AOP	Own shares (account 237)	AOP	Emission premium (account 302)	AOP	Reserves (account group 32)	AOP	Revaluation reserves (group calculates 33 demand balances)	AOP	Revaluation reserves (group calculates 33 debt balances))	AOP	Profit (account group 34)	AOP	Loss (account group 35)	AOP	Participation without the right of control	AOP	Total(q. 2-3 + 4 + 5 + 6-7 + 8-9 + 10) ≥ 0	AOP	Total (q. 2-3 + 4 + 5 + 6-7 + 8-9 + 10) < 0
	1		2		3		4		5		6		7		8		9		10		11		12
	increase																						
12	Transfer from reserves to results due to cancellation of reserves - reduction	x	x	x	x	x	x	x	x	x	x	x	x	4173	x	4211	0	4252	-	x	x	x	x
13	Transactions with owners recorded directly in equity - increase	4007	-	4039	-	4071	-	4103	-	x	x	x	x	4174	0	4212	0	4253	-	x	x	x	x
14	Transactions with owners recorded directly in equity - decrease	4008	-	4040	-	4072	-	4104	-	x	x	x	x	4175	0	4213	0	4254	-	x	x	x	x
15	Profit distribution – increase	4009	-	4041	-	4073	-	4105	194,679	x	x	x	x	4176	0	4214	0	4255		x	x	x	x
16	Distribution of profits, i.e. loss coverage – decrease	4010	-	4042	-	4074	-	4106	-	x	x	x	x	4177	0	4215	0	4256	-	x	x	x	x
17	Dividend payment	4011	-	4043	-	4075	-	4107	-	x	x	x	x	4178	0	4216	0	4257	-	x	x	x	x
18	Other – increase	4012	-	4044	-	4076	-	4108	-	x	x	x	x	4179	0	4217	0	4258	-	x	x	x	x
19	Other – decrease	4013	-	4045	-	4077	-	4109	-	x	x	x	x	4180	194,679	4218	0	4259	-	x	x	x	x
20	Total transactions with owners (ordinal number 13-14 + 15-16-17 + 18-19) ≥ 0	4014	-	4046	-	4078	0	4110	194,679	x	x	x	x	4181	0	4219	0	4260	0	x	x	x	x
21	Total transactions with owners (ordinal number 13-14 + 15-16-17 + 18-19)	4015	-	4047	-	4079	-	4111	-	x	x	x	x	4182	194,679	4220		4261		x	x	x	x
22	Balance as at 31 December of the previous year (for columns 2,3,4,5,6,8 and 10 ordinal numbers 6 + 7-8 + 9-10 + 11-12 + 20-21; for column 7 ordinal number 6 + 8-7, for column 9 ordinal number 6 + 7-8 + 9 + 10 + 11-12 + 20-21)	4016	960,374	4048	-	4080	0	4112	298,047	4137	19,433	4155	0	4183	106,679	4221	0	4262	0	4287		4293	1,384,533

Ordinal no.	DESCRIPTION	AOP	Equity and shares (group counts 30, except 302)	AOP	Own shares (account 237)	AOP	Emission premium (account 302)	AOP	Reserves (account group 32)	AOP	Revaluation reserves (group calculates 33 demand balances)	AOP	Revaluation reserves (group calculates 33 debt balances))	AOP	Profit (account group 34)	AOP	Loss (account group 35)	AOP	Participation without the right of control	AOP	Total(q. 2-3 + 4 + 5 + 6- 7 + 8-9 + 10) ≥ 0	AOP	Total (q. 2-3 + 4 + 5 + 6-7 + 8-9 + 10) < 0
	1		2		3		4		5		6		7		8		9		10		11		12
23	Opening balance on January 1 of the current year	4017	960.374	4049	-	4081	0	4113	298.047	4138	19.433	4156	0	4184	106.679	4222	0	4263	0	4288		4294	1.384.533
24	Effects of the first application of new IFRS – increase	4018	-	4050	-	4082	-	4114	-	4139	-	4157	-	4185	-	4223	-	4264	-	x	x	x	x
25	Effects of the first application of new IFRS - reduction	4019	-	4051	-	4083	-	4115	-	4140	-	4158	-	4186	-	4224	-	4265	-	x	x	x	x
26	Change in accounting policies and correction of material errors in the previous year - increase	4020	-	4052	-	4084	-	4116	-	4141	-	4159	-	4187	-	4225	-	4266	-	x	x	x	x
27	Change in accounting policies and correction of material errors in the previous year - reduction	4021	-	4053	-	4085	-	4117	-	4142	-	4160	-	4188	-	4226	-	4267	-	x	x	x	x
28	Corrected initial balance on January 1 of the current year (ordinal number 23 + 24-25 + 26-27)	4022	960.374	4054	-	4086	0	4118	296.047	4143	19.433	4161	0	4189	106.679	4227	-	4268	0	4289		4295	1.384.533
29	Overall positive other result of the period	x	x	x	x	x	x	x	x	4144	-	4162	-	x	x	x	x	4269	-	x	x	x	x
30	Total negative other result of the period	x	x	x	x	x	x	x	x	4145	11.621	4163	-	x	x	x	x	4270	-	x	x	x	x
31	Profit for the current year	x	x	x	x	x	x	x	x	x	x	x	x	4190	163.010	x	x	4271	-	x	x	x	x
32	Loss of current year	x	x	x	x	x	x	x	x	x	x	x	x	x	x	4228	0	4272	-	x	x	x	x
33	Transfer from reserves to results due to cancellation of reserves - increase	x	x	x	x	x	x	x	x	x	x	x	x	4191	0	4229	x	4273	-	x	x	x	x
34	Transfer from reserves to results due to cancellation of reserves - reduction	x	x	x	x	x	x	x	x	x	x	x	x	4192	x	4230	0	4274	-	x	x	x	x
35	Transactions with owners recorded directly in equity - increase	4023	-	4055	-	4087	-	4119	-	x	x	x	x	4193	0	4231	0	4275	-	x	x	x	x
36	Transactions	4024	-	4056	-	4088	-	4120	-	x	x	x	x	4194	0	4232	0	4276	-	x	x	x	x

Ordinal no.	DESCRIPTION	AOP	Equity and shares (group counts 30, except 302)	AOP	Own shares (account 237)	AOP	Emission premium (account 302)	AOP	Reserves (account group 32)	AOP	Revaluation reserves (group calculates 33 demand balances)	AOP	Revaluation reserves (group calculates 33 debt balances))	AOP	Profit (account group 34)	AOP	Loss (account group 35)	AOP	Participation without the right of control	AOP	Total(q. 2-3 + 4 + 5 + 6-7 + 8-9 + 10) ≥ 0	AOP	Total (q. 2-3 + 4 + 5 + 6-7 + 8-9 + 10) < 0
	1		2		3		4		5		6		7		8		9		10		11		12
	with owners recorded directly in equity – increase																						
37	Profit distribution - increase	4025	-	4057	-	4089	-	4121	106,679	x	x	x	x	4195	0	4233	0	4277	-	x	x	x	x
38	Distribution of profits, i.e. loss coverage – decrease	4026	-	4058	-	4090	-	4122	-	x	x	x	x	4196	0	4234	0	4278	-	x	x	x	x
39	Dividend payment	4027	-	4059	-	4091	-	4123	-	x	x	x	x	4197	0	4235	0	4279	-	x	x	x	x
40	Other - increase	4028	-	4060	-	4092	-	4124	-	x	x	x	x	4198	0	4236	0	4280	-	x	x	x	x
41	Other – Decrease	4029	-	4061	-	4093	-	4125	-	x	x	x	x	4199	106,679	4237	0	4281	-	x	x	x	x
42	Total transactions with owners (ordinal number 35-36 + 37-38-39 + 40 + 41) ≥ 0	4030	-	4062	-	4094	0	4126	106,679	x	x	x	x	4200		4238	0	4282	0	x	x	x	x
43	Total transactions with owners (ordinal number 35-36 + 37-38-39 + 40 + 41)	4031	-	4063	-	4095	-	4127	-	x	x	x	x	4201	106,679	4239		4283		x	x	x	x
44	Balance as at 31 December of the current year (for columns 2,3,4,5,6,8 and 10 ordinal numbers 28 + 29-30 + 31-32 + 33-34 + 42-43; for column 7 ordinal numbers 28 + 30-29, for column 9 ordinal number 28 + 29-30 + 31 + 32 + 33-34 + 42-43)	4032	960,374	4064	-	4096	0	4128	404,726	4146	7,812	4164	0	4202	163,010	4240	0	4284	0	4290	0	4296	1,535,922

In Belgrade,

on February 24, 2022. year

М. П.

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

Legal representative of the financial lessor

Anex 4

To be filled in by the financial leasing provider		
ID number: 17492713	Activity code: 6491	TAX ID: 103023875
Name: Intesa Leasing doo Belgrade		
Headquarters: Belgrade, Milentija Popovića 7b		

CASH FLOW STATEMENT
for the period from 01.01.2021. to 31.12.2021

(in thousands of dinars)

	POSITION	AOP code	Amount: Current year	Amount: Previous year
	1	2	3	4
A	CASH FLOWS FROM OPERATING ACTIVITIES			
I	Cash inflows from operating activities (from 3002 to 3007)	3001	12,396,578	9,625,816
1.	Inflows from placements in financial leasing	3002	8,489,248	6,789,893
2.	Inflows from placements in operational leasing	3003	-	
3.	Inflows from the sale of intangible property, real estate, plants and equipment leased and operational leasing	3004		
4.	Inflows from advances	3005	3,212,584	2,412,676
5.	Interest inflows	3006	487,323	326,744
6.	Inflows from other business activities	3007	207,423	96,503
II	Cash outflows from operating activities (from 3009 to 3015)	3008	14,329,423	11,833,134
7.	Leasing outflows	3009	7,740	8,490
8.	Outflows for the purchase of intangible assets, real estate, plant and equipment that are leased under operating leases	3010	-	-
9.	Advance outflows	3011	14,089,530	11,633,468
10.	Interest outflows	3012	-	-
11.	Outflows from gross wages, salaries and other personal expenses	3013	126,804	120,415
12.	Outflows from taxes, contributions and other charges on expenses	3014	99,081	67,966
13.	Outflows from other operating expenses	3015	6,268	2,795
14.	Decrease in financial resources and increase in financial liabilities	3016	-	-
15.	Increasing financial resources and decrease financial liabilities	3017	-	-
III	Net cash inflow from operating activities before income tax (3001 - 3008 + 3016 - 3017)	3018		
IV	Net cash outflow from operating activities before income tax (3008 - 3001 + 3017 - 3016)	3019	1,932,845	2,207,318
16.	Income tax paid	3020	24,026	33,556
V	Net cash inflow from operating activities (3018 - 3019 - 3020)	3021		
VI	Net cash outflow from operating activities (3019 - 3018 + 3020)	3022	1,956,871	2,240,874
Б	CASH FLOWS FROM INVESTING ACTIVITIES			
I	Cash inflows from investing activities (from 3024 to 3029)	3023	27,602	29,266
1.	Inflows from investing in investment securities	3024	27,285	27,285
2.	Inflows from the sale of investments in subsidiaries and associated societies and joint ventures	3025	-	-

POSITION		AOP code				Amount	
						Current year	Previous year
3.	Inflows from the sale of intangible assets, real estate, plants, equipment and other assets	3	0	2	6	-	-
4.	Inflows from the sale of investment properties	3	0	2	7	-	-
5.	Dividend inflows and profit earnings	3	0	2	8	-	-
6.	Other inflows from investment activities	3	0	2	9	317	1,981
II	Cash outflows from investment activities (from 3031 to 3035)	3	0	3	0	385,371	1,056,805
7.	Outflows from investments in investment securities	3	0	3	1	-	-
8.	Outflows for the purchase of investments in subsidiaries and associates and joint ventures	3	0	3	2	150,000	210,000
9.	Outflows for the purchase of intangible assets, real estate, plant and equipment	3	0	3	3	11,862	11,955
10.	Outflows from the acquisition of investment property	3	0	3	4	-	-
11.	Other outflows from investment activities	3	0	3	5	223,509	834,850
III	Net cash flow from investment activities (3023 – 3030)	3	0	3	6	-	-
IV	Net cash outflow from investment activities (3030 – 3023)	3	0	3	7	357,769	1,027,539
B I	CASH FLOWS FROM FINANCING ACTIVITIES Cash flows from financing activities (3039 to 3042)	3	0	3	8	13,579,065	9,159,368
1.	Inflows from capital increases	3	0	3	9	-	-
2.	Inflows from loans taken out	3	0	4	0	13,579,065	9,159,368
3.	Inflows from the sale of their own shares and shares	3	0	4	1	-	-
4.	Other inflows from funding activities	3	0	4	2	-	-
II	Cash outflows from financing activities (3044 to 3047)	3	0	4	3	13,597,677	3,558,245
5.	Outflows from the purchase of their own shares and shares	3	0	4	4	-	-
6.	Outflows based on loans taken out	3	0	4	5	13,589,923	3,551,361
7.	Dividend outflows and profit earnings	3	0	4	6	-	-
8.	Other outflows from funding activities	3	0	4	7	7,754	6,884
III	Net cash flow from financing activities (3038-3043)	3	0	4	8		5,601,123
IV	Net cash outflow from financing activities (3043-3038)	3	0	4	9	18,612	-
Г	CASH FLOWS (3001 + 3016 + 3036 + 3048)	3	0	5	0	12,396,578	15,226,939
Д	CASH OUTFLOWS (3008 + 3017 + 3020 + 3037 + 3049)	3	0	5	1	14,729,830	12,894,229
Ђ	NET INCREASE OF CASH (3051 – 3050)	3	0	5	2	-	2,332,710
Е	NET DECREASE OF CASH (3051 – 3050)	3	0	5	3	2,333,252	-
Ж	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3	0	5	4	2,508,871	176,388
З	EXCHANGE RATE GAINS	3	0	5	5	3,500	130
И	EXCHANGE RATE LOSSES	3	0	5	6	7,245	357
J	CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (3052 – 3053 + 3054 + 3055 – 3056)	3	0	5	7	171,874	2,508,871

In Belgrade,
on 24.02.2022.

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

Legal representative of the financial leasing provider

INTESA LEASING D.O.O. BEOGRAD

NOTES TO THE FINANCIAL STATEMENTS FOR 2021

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

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

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

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

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

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

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

Pursuant to the Decision of the Serbian Business Register Agency no. 254739/2006 dated 29 December 2006, a new capital increase in the Company was carried out. The share capital was increased to EUR 5,350,000, while the proportions of the respective founders' stares 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. Share capital was increased to EUR 10,152,452.62, with a change in the proportions of the respective founders' stares. The share of Banca Intesa a.d. Beograd in total stake capital increased to 98.7%, while the share of founder from abroad, CIB Leasing LTD, Budapest, Hungary decreased to 1.3%.

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

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

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

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

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

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

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

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

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

As at 31 December 2021 the Company had 44 employees (31 December 2020: 43 employees).

2 BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of Preparation and Presentation of the Financial Statements

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

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

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

The Ministry of Finance of the Republic of Serbia decision number 401-00-4980/2019-16 dated November 21, 2019, establishes the translation of International Financial Reporting Standers (IFRS), which comprise the Conceptual Framework for Financial Reporting ("Framework"), basic texts of the International Accounting Standards (IAS), basic IFRS texts as published by the International Accounting Standards Board (IASB), including interpretations issued by the International Financial Reporting Interpretations Committee in the form in which they are published and adopted, and which do not include basis for conclusions, illustrative examples, guidelines, comments, opposing opinions, developed examples and other additional explanatory materials which can be adopted in respect of the standards or interpretations, unless it is explicitly stated that they are integral to the standard or interpretation. The translated IFRS as established by decision number 401-00-4980/2019-16, will be applied to financial statements prepared for the period ended 31 December 2021.

The Company has applied IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers as of January 1, 2018 and IFRS 16 Leases as of January 1, 2019, in accordance with the Opinion of the Ministry of Finance, no. 011-00-1051/2016-16 of 23 November 2016. The Company has chosen to apply these standards voluntarily from the date on which they come into force, on January 1, 2018, and January 1, 2019 respectively, although it has not been translated into Serbian or published in the Republic of Serbia. Consequently, publication of translations of IFRS 9, IFRS 15 and IFRS 16 did not have any effect on the Company's accounting policies in 2021 compared to 2020.

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

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

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

The accompanying financial statements are prepared in the form prescribed by the Rules on the Content and Layout of Financial Statement Forms for Financial Lessors ("RS Official Gazette" no. 119/2021).

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

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

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

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

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

The accompanying financial statements of the Company for 2021 are approved for publishing by the Chairman of the Executive Board on 21 February 2022.

2.2 Comparative figures

Comparative data comprise the annual financial statements of the Company for 2020, 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 2020.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Income and Expense Recognition

(a) Interest Income and Expenses

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

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

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

(b) Fee Income

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

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

(c) Fee Expenses

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

(d) Other Expenses

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

(e) Other Income

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

3.2 Foreign Currency Translation

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Foreign Currency Translation (continued)

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

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

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

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

In RSD	31 December 2021	31 December 2020
Currency		
- CHF	113.6388	108.4388
- EUR	117.5821	117.5802

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

During 2021, the Company used contractual exchange rates for the translation of receivables from finance lease activities, and recorded net foreign exchange gains/losses and net gains/losses from foreign exchange clause in the income statement.

3.3 Cash

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Financial placements held with banks

Financial placements held with banks comprise:

- foreign currency accounts and
- term deposits with banks.

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

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

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

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

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

3.5 Other financial placements and derivatives

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

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

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

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

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

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

As at 31 December 2021 the Company doesn’t have financial derivatives.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Receivables from finance lease activities

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

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

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

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

Lease investments recognized in the Balance sheet as receivables from finance lease activities are subsequently measured at amortized cost less estimated allowance for impairment.

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

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

Other receivables from finance lease comprise:

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment of Financial Assets

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

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

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

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

Impairment is measured according to one of the following:

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

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

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

Criteria for classification of receivables are:

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment of Financial Assets (continued)

Receivables are classified into one of the following classes:

a) Non – Performing Receivables

Doubtful

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

Unlikely to Pay

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

Past Due

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

b) Performing Receivables

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

Exposure with PM status - Watchlist

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment of Financial Assets (continued)

Forborne exposures

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

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

The term concession implies the following:

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

Minimum criteria for reclassification (return) to Performing status

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

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

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

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

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

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

Trial period for Past due exposures

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment of Financial Assets (continued)

Manual return from Trial Period

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

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

Impairment calculation

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment of Financial Assets (continued)

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

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

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment of Financial Assets (continued)

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

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment of Financial Assets (continued)

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment of Financial Assets (continued)

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment of Financial Assets (continued)

Uncollectable receivables write-off

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

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

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

3.8 Repossessed leased assets and inventories

(a) Repossessed leased assets

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

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

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

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

(b) Inventories

Inventories of the Company comprise:

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Intangible assets

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

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

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

The Company applies the straight-line method for calculation of amortization for intangible assets for which useful life is 5 years. The annual amortization rate for intangible assets is 20%. During 2021, 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 2021 comprise equipment. The equipment is stated at cost, less total accumulated depreciation and any accumulated impairment losses. Purchase value is consist of the invoiced value plus all expenses incurred to bringing the asset to the proper state and location.

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

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

The applied annual depreciation rates are as follows:

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

The useful lives of assets are reviewed periodically, and adjusted if necessary at each balance sheet date. Changes in expected useful lives of assets are accounted for as changes in accounting estimates. During 2021, there were no changes in depreciation rates, in comparison to the previous period.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Property, plant and equipment (continued)

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

3.11 Lease assets

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

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

Company as a lessee

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Leased assets (Continued)

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

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

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

After the commencement date, lease liabilities are measured by:

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

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

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

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

Lease modifications

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Leased assets (Continued)

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

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

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

3.12 Impairment of non-financial assets

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

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

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

3.13 Borrowings from Banks and Other Financial Institutions

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

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

3.14 Provisions

Provisions are recognized when:

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Provisions (continued)

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

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

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

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Contingent Liabilities and Contingent Assets

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

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

3.16 Employee benefits

(a) Employee Taxes and Contributions for Social Security

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

The Company is required by law to withhold calculated contributions from the employee's gross salary and to make payments of withheld amounts on the employee's behalf to appropriate state funds. The Company has no legal obligation to pay further benefits due to its employees by the Pension Fund of the Republic of Serbia upon their retirement.

Taxes and contributions on behalf of the employee and the employer are recognized expensed in the period they occur (Note 11).

(b) Other Employee Benefits - Retirement Benefits

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

(c) Short-term paid leave

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

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

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

The Company does not have its own pension funds, nor any employee share based options and did not identify any liabilities in this respect as at 31 December 2021.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 Taxes and contributions

Current Income Tax

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

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

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

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

Deferred income tax

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

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

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

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

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

In calculating deferred tax assets and liabilities, tax rates are used that will be effective in year of exercising the tax benefits or settlement of deferred tax assets, based on currently-enacted tax rates and regulations at or after the balance sheet date. The tax rate used for calculating deferred tax assets in 2021 is 15%, and is the same as in previous year.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 Taxes and contributions (continued)

Current Tax Assets/Liabilities

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

The Company has presented data on current tax liability for 2021 and 2020 in Note 14.

Transfer pricing

The tax balance for 2021 has not been submitted until the date of the Company's financial statements, as the time limit for submission is 180 days from the date on which the tax is determined. The Company calculated tax effects based on the Corporate Income Tax Law of the Republic of Serbia. The Company has not performed a study of transfer prices, but management believes that on this basis will not have a material effect on the year 2021 because it has not had, and in 2021 there were no significant changes in the types of services in relation to the previous year.

Taxes and contributions not related to operating result

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

3.18 Other Assets and Other Liabilities

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

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

3.19 Related party transactions

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

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

4 KEY ACCOUNTING ESTIMATES AND JUDGMENTS

Use of Estimates

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

Such estimates and assumptions are based on information available as at balance sheet date. Actual results might differ from the indicated estimates. Estimates and assumptions are continually reviewed, and when adjustments are necessary, they are reported in the income statement in the periods in which they became known.

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

Impairment of financial assets

The Company recognizes a value adjustment for expected credit losses for financial assets measured at amortized cost or for debt financial assets that are recorded at fair value through other comprehensive result.

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

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

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

Impairment is measured according to one of the following:

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

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

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

4 KEY ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Classification of financial assets

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

Business model assessment

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

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

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

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

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

Useful Lives of Intangible Assets, Property, Plant and Equipment

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

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

4 KEY ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

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

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

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

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

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

Deferred tax assets

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

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

Retirement benefits

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

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

Provisions for court cases

The Company is involved in a number of court cases arising from daily operations which relate to commercial and contractual issues, and which are resolved or considered in the regular course of doing business. The Company regularly assesses the likelihood of negative outcomes of these litigations, as well as ranges of probable and reasonable estimated losses.

Reasonable estimates include the use of judgment by management after considering information which includes notifications, settlements, assessments by the legal department, available facts, identification of potential responsible parties and their ability to contribute to a resolution, as well as previous experience.

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

4 KEY ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Leases

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

5 INTEREST INCOME AND INTEREST EXPENSES

	2021	2020
Interest income		
Interest income from finance lease activities	502,926	431,002
Penalty interest income	2,983	1,589
Interest income on securities	26,385	26,390
Interest income	285	1,843
Total	532,579	460,824
Interest expenses		
Interest expense on other borrowings from abroad	(91,897)	(66,919)
Interest expense on borrowings from related parties in the country	(75,232)	(112,220)
Interest expense on rental	(256)	(202)
Total	(167,385)	(179,341)
Interest income	365,194	281,483

6 FEE AND COMMISSION INCOME AND EXPENSES

	2021	2020
Fee and commission income		
Income from delivering services – finance lease processing fees	69,469	60,585
Income from warnings	3,778	3,072
Intercalary interest income	23,348	25,668
Income from costs recharged to lessees	32,440	28,536
Other income from fees	8	2,174
Total	129,043	120,035
Fee and commission expenses		
Insurance for leased assets	(14,437)	(12,640)
Expenses from placement of leasing assets	(17,749)	(12,494)
Expenses from repossessing leased assets	(344)	(9)
Registration fees of lease agreements	(12,831)	(11,380)
Expenses from loan guarantees	(13,906)	(10,508)
Other expenses from finance lease activities	(5,678)	(5,503)
Total	(64,945)	(52,534)
Net fee and commission income	64,098	67,501

7 FOREIGN EXCHANGE LOSSES AND EFFECTS OF FOREIGN EXCHANGE CLAUSE

	2021	2020
Foreign exchange gains and effects of foreign currency clause		
Income from effects of foreign currency clause	6,573	20,476
Foreign exchange gains	8,288	12,476
Total	14,861	32,952
Foreign exchange losses and effects of foreign currency clause		
Expenses from effects of foreign currency clause	(5,008)	(21,826)
Foreign exchange losses	(13,214)	(11,907)
Total	(18,222)	(33,733)
Expenses, net amount	(3,361)	(781)

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

	2021	2020
Net (impairment)/decrease in allowance for impairment of matured long-term receivables overdue more than 60 days	(3,559)	4,039
Net (impairment)/decrease in allowance for impairment of long-term receivables overdue up to 60 days and future receivables from finance lease activities	(46,637)	(51,421)
Net (impairment)/decrease in allowance for impairment of short-term receivables overdue more than 60 days	(1,400)	(2,195)
Net decrease in allowance for impairment/(impairment) of short-term receivables overdue up to 60 days	(214)	(136)
Net (impairment)/decrease in allowance for impairment of other financial placements - Securities	(2,810)	1,326
Net (expenses)/income	(54,620)	(48,387)

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

	2021	2020
Impairment of repossessed leased assets	(9,690)	(13,048)
Gains on adjustments in value of repossessed leased assets	-	1,851
Total	(9,690)	(11,197)

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

10. OTHER OPERATING INCOME

	2021	2020
Income from leasing insurance	55,736	40,098
Income from reduction of liabilities	3,255	2,257
Profits for investment units	2,833	885
Income from reversal of provisions under IAS 19	-	329
Other operating income	1,353	1,399
Net (income)/expense	63,177	44,968

11 DEPRECIATION/AMORTIZATION COST

	2021	2020
Amortization of intangible assets (Note 19)	7,485	7,735
Depreciation of property, plant and equipment(Note 20)	629	1,433
Depreciation of assets with right of use (Note 20)	6,508	6,465
Total	14,622	15,633

12 SALARIES, SALARY COMPENSATION AND OTHER PERSONNEL EXPENSES

	2021	2020
Cost of gross salaries	97,692	92,530
Expenses for accrued bonuses	14,102	8,898
Taxes and contributions	15,107	13,955
Other personnel expenses and fees	3,861	2,122
Costs of service contracts	2,086	412
Total	132,848	117,917

13 OTHER EXPENSES AND OTHER INCOME

Other income

	2021	2020
Income from withdrawal of provisions for litigation	3,115	1,063
Total	3,115	1,063

Other expenses

	2021	2020
Maintenance services (c)	16,599	19,003
Advertising and promotion	840	57
Consulting services (a)	17,356	15,821
Rental expense	1,377	680
Bank charges	2,355	1,573
Entertainment expense	1,697	798
Youth and student association services	2,897	2,869
Fuel	2,085	1,827
Legal services	1,182	1,144
Transportation and postal service	2,131	1,603
Costs of materials	804	611
Professional development and literature	686	821
Spare parts and tools	882	433
Audit costs	3,339	3,648
Membership fees	1,451	1,443
Insurance premiums	371	323
Translation services and similar services	196	401
Taxes	1,882	1,328
Litigation expenses (d)	900	5,242
Provision for litigation (b)	6,625	1,565
Other services	5,147	3,056
Total	70,802	64,246

(a) The cost of consulting services in the current year is higher compared to the previous year, primarily due to the increase of expenses under the "Service Level Agreement" (SPA) contract with Banca Intesa a.d. Beograd, which in 2021 amounted to RSD 15,579 thousand (2020: RSD 15,551 thousand).

(b) Within the expenditure of provisions, the largest part refers to the expenditure of provisions for litigation, which in 2021 amounted to RSD 5,369 thousand and was higher than in the previous year (RSD 1,267 thousand) and arose from new litigation and increase in provisions for part of the disputes from previous years that have not been resolved. These expenses relate to passive litigation against the Company and for which the best possible estimate of expenses has been made that corresponds to the amount that the Company would pay in order to resolve the dispute.

(c) In the group of costs of maintenance services, the decrease in the current year refers to the decrease in costs of software maintenance services, which in 2021 amount to RSD 16,360 thousand (2020: RSD 18,817 thousand).

13 OTHER EXPENSES AND OTHER INCOME (continued)

Other expenses (continued)

(d) The decrease in expenses in the group Costs of litigation during the year was higher due to a smaller number of litigations that were initiated and closed during the business year. Expenditures related to these litigations in 2021 amount to RSD 422 thousand (2020 RSD 3,994 thousand).

14 INCOME TAX

a) Income tax components

The components of income tax expenses are:

	2021	2020
Income tax of the period	45,876	30,252
Deferred tax expense of the period	755	-
Deferred tax income of the period	-	(77)
Total tax expense of the period	46,631	30,175

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

Reconciliation between income tax expenses calculated at the statutory income tax rate on profit before tax and income tax expense as per the Company's effective income tax rate for the years ended 31 December 2021 and 2020 is presented below:

	2021	2020
Profit before tax	209,641	136,854
Income tax expense at statutory rate of 15%	31,446	20,528
Non-deductible expenses for tax purposes	444	405
Disallowed allowance for impairment of receivables	20,418	13,390
Interest income on securities issued by the Republic of Serbia - income adjustment	(3,958)	(3,959)
Losses of impairment of assets that are not recognized in the tax period	1,041	1,562
Income adjustment for previously unrecognized tax expenses	(3,517)	(1,674)
Current income tax	45,875	30,252
Deferred tax income – tax depreciation	337	(491)
Deferred tax income – IAS 19	(40)	(45)
Tax effects of first time adoption of IFRS 9	459	459
Total deferred tax expense/income	756	(77)
Income tax disclosed in the income statement	46,631	30,175
Effective tax rate	*22.24%*	*22.05%*

14 INCOME TAX (continued)

(c) Deferred tax assets

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

	2021	2020
Balance as at 1 January	3,786	3,709
Effects of temporary differences credited/(charged) to the Statement of profit and loss	(756)	77
Balance as at 31 December	3,030	3,786

The following table represents the bases for recording deferred tax income / (expense) and the effect on the Statement of profit and loss for 2021 and 2020:

	Deferred tax assets 2021	Statement of profit and loss 2021	Deferred tax assets 2020	Statement of profit and loss 2020
Temporary differences between the carrying amount of equipment and intangible assets and their tax base	2,401	337	2,738	491
Temporary differences arising from the first application of IFRS 9 Financial Instruments	459	459	918	(459)
Temporary differences arising from the provision under IAS 19 "Employee Benefits"	170	(40)	130	45
Total	3,030	756	3,786	77

(d) Current tax liabilities

	2021	2020
Balance as at 31 December	(22,599)	(748)

Current tax liability resulting from the difference of the calculated tax expenses for 2021 and the advance tax paid on profits in 2021.

15 CASH

	2021	2020
Current accounts in dinars	171,848	157,267
Foreign currency accounts	26	2,351,604
Balance as at 31 December	171,874	2,508,871

During 2021 and 2020 the Company performed payment and settlement transactions in domestic and foreign currency through its accounts held with Banca Intesa a.d. Beograd.

16 SHORT - TERM FINANCIAL ASSETS

	2021	2020
Term deposit	1,058,356	834,819
Government bonds of the Republic of Serbia	735,371	750,702
Financial assets - investment funds	363,718	210,885
Balance as at 31 December	2,157,445	1,796,406

Investment in investment funds refers entirely to the investment units of the related party Intesa invest a.d. Beograd.

17 OTHER FINANCIAL PLACEMENTS AND DERIVATIVES

Below is a comparative overview of investments in government bonds on December 31, 2021 and 2020:

Description of financial placement	Market value 31/12/2021	Maturity of financial placements	Interest rate achieved at time of purchase
Government bonds of the Republic of Serbia	614,075	January 2022	3.73% annually
Government bonds of the Republic of Serbia	121,296	January 2023	3.74% annually
Intesa Invest – investment units	363,718	No maturity	
Total Securities	1,099,089		

Description of financial placement	Market value 31/12/2020	Maturity of financial placements	Interest rate achieved at time of purchase
Government bonds of the Republic of Serbia	626,832	January 2022	3.73% annually
Government bonds of the Republic of Serbia	123,870	January 2023	3.74% annually
Intesa Invest – investment units	210,885	No maturity	
Total Securities	961,587		

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

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

	2021	2020
Balance as at 1 January	(1,389)	(2,715)
Allowance for impairment during the year – increase	(2,812)	-
Allowance for impairment during the year – decreases	2	1,326
Balance as at 31 December	(4,199)	(1,389)

18 RECEIVABLES FROM FINANCE LEASE ACTIVITIES

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

	2021	2020
Overdue finance lease receivables	291,188	261,633
Finance lease receivables with maturity up to 1 year	7,004,232	6,004,491
Short-term receivables	16,833	22,647
Accrued interest income on finance lease receivables	28,671	24,072
Deferred income- processing fee of financial leasing placements	(47,633)	(39,873)
Total receivables from finance lease activities	7,293,291	6,272,970
Less:		
Allowance for impairment – overdue finance lease receivables	(218,216)	(199,522)
Allowance for impairment – Finance lease receivables with maturity up to 1 year	(48,758)	(47,354)
Allowance for impairment – Short-term receivables	(13,430)	(12,731)
Total allowances for impairment of finance lease receivables	(280,404)	(259,607)
Net receivables from finance lease activities	7,012,887	6,013,363

	2021	2020
Receivables from financial leasing from 1 to 5 years	12,248,371	10,966,798
Financial leasing receivables over 5 years	601,301	523,132
Deferred income- processing fees of financial leasing placements	(47,779)	(40,343)
Total long-term receivables from financial leasing	12,801,893	11,449,587
Minus		
Adjustment of receivables based on financial leasing from 1 to 5 years	(86,511)	(83,720)
Adjustment of receivables based on financial leasing over 5 years	(4,577)	(5,251)
Total value adjustment of long-term receivables on the basis of financial leasing	(91,088)	(88,971)
Net long-term receivables from financial leasing	12,710,805	11,360,616

The Company’s finance lease receivables as at 31 December 2021 amounted to RSD 20,145,092 and increased by 13,45 % compared to previous year (31 December 2020: RSD 17,756,054 thousand). Short-term receivables relate to other receivables from finance lease: receivables for processing fees, recharged expenses, penalty interest, warning letters and intercalary interest.

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

18 FINANCE LEASE RECEIVABLES (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 95,413 thousand for 2021, or RSD 80,216 thousand for 2020.

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.

During 2020, the National Bank of Serbia issued decisions on temporary measures for financial leasing providers to mitigate the consequences of the Covid-19 pandemic in order to preserve the stability of the financial system (Official Gazette of RS 150/2020), which was implemented in the first half of 2021. As the mentioned bylaws resulted in changes in agreed terms of lease agreements (primarily the schedule of agreed cash flows), their modification, which in this case is not significant, does not result in derecognition of the financial asset, the Company has calculated the effect of the modification.

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

	Number of debtors	Number of contracts
Moratorium 3	136	339

(a) The present and future value of minimum lease payments receivables, without short term receivables for fees, accrued interest income and deferred origination fees as at 31 December 2021 are presented in the table below:

	Net book value	Unearned income	Gross receivables
Up to 1 year and past due	7,295,420	442,626	7,738,046
From 1 to 5 years	12,248,371	579,343	12,827,714
Over 5 years	601,301	44,473	645,774
Total	20,145,092	1,066,442	21,211,534

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

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

18 FINANCE LEASE RECEIVABLES (continued)

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

	2021	2020
Balance as at 1 January	(348,578)	(299,530)
Allowance for impairment during the year - increase	(56,307)	(61,978)
Allowance for impairment during the year - decreases	4,540	12,394
Write off of receivables - decrease	28,896	651
Foreign exchange differences - increase	(142)	(141)
Foreign exchange differences - decrease	99	26
Balance as at 31 December	(371,492)	(348,578)

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

Accumulated depreciation	31 December 2020	Addition during the year	31 December 2021
Stage 1	(87,492)	22,798	(64,694)
Stage 2	(35,045)	13,158	(21,887)
Stage 3	(226,041)	(58,870)	(284,911)
Total	(348,578)	(22,914)	(371,492)

(c) The value of minimum lease payments receivables, without accrued interest income and deferred processing fees and without short-term receivables, and related allowances for impairment, as at 31 December 2021 and 31 December 2020, allowances of receivables by stage impairment is shown in the following table:

	Value of receivables	Allowance for impairment of receivables	Net value of receivables
Stage 1 impairment	18,773,327	(64,683)	18,708,644
Stage 2 impairment	980,495	(21,870)	958,625
Stage 3 impairment	391,270	(271,509)	119,761
Balance as at 31 December 2021	20,145,092	(358,062)	19,787,030

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

18 FINANCE LEASE RECEIVABLES (continued)

ECL movements in 2021	Stage 1	Stage 2	Stage 3	Total
Opening balance - 01/01/2021	87,492	35,045	226,040	348,577
Transfer to Stage 1	-	(10,598)	-585	(11,183)
Transfer to Stage 2	(3,044)	-	-2,467	(5,511)
Transfer to Stage 3	(2,840)	(5,704)	-	(8,544)
ECL movements due to change in measurement	(18,559)	7,547	63,240	52,228
New production	32,611	6,122	35,479	74,212
Collection	(30,966)	(10,525)	(7,690)	(49,181)
Write-offs	-	-	(29,106)	(29,106)
Balance as at 31/12/2021	64,694	21,887	284,911	371,492

(d) In 2021 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 2021, average lease origination fee amounted to 0.54% of the gross cost of the leased asset (2020: 0.50%).

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 2021 vary in the following ranges:

Placements	From	To
Finance lease receivables in EUR	1.40%	6.49%
Finance lease receivables in RSD	3.29%	7.49%

The average rate of the clients' participation in accordance with the lease agreements in 2021 amounted to 20.93% of the net cost of the leased asset (2020: 20.69%).

19 INTANGIBLE ASSETS

	License and software	Intangible assets under development	Total
COST			
Balance as at 1 January 2020	54,893	1,171	56,064
Additions during the year - new acquisitions	6,060	1,880	7,940
Transfer (from)/to	1,463	(1,463)	-
Balance as at 31 December 2020	62,416	1,588	64,004
Additions during the year - new acquisitions	2,248	6,742	8,990
Transfer (from)/to	1,080	(1,080)	-
Disposal	(80)	-	(80)
Balance as at 31 December 2021	65,664	7,250	72,914
ACCUMULATED AMORTIZATION			
Balance as at 1 January 2020	34,479	-	34,426
Amortization (Note 11)	7,735	-	7,735
Balance as at 31 December 2020	42,214	-	42,161
Amortization (Note 11)	7,342	-	7,485
Balance as at 31 December 2021	49,646	-	49,646
Net book value as of:			
- 31 December 2021	16,018	7,250	23,268
- 31 December 2020	20,202	1,588	21,790

In 2021 the upgrade of the information system “Nova” was continued with upgrades of existing modules as well as investments in intangible assets under preparation for four new processes.

Based on the Company’s management estimates, as at 31 December 2021 there are no indications that intangible assets are impaired.

20 PROPERTY, PLANT AND EQUIPMENT

	Vehicles	Vehicles and Real-estate on lease*	Other equipment	Acquired leasing items	Other assets acquired	Total
COST						
Balance as at 1 January 2020	9.263	22.483	3.557	73.594	597	109.494
Additions during the year – new purchases	-	-	650	149.776	-	150.426
Disposal	-	-	(146)	(151.267)	-	(151.413)
Balance as at 31 December 2020	9.263	22.483	4.061	72.103	597	108.507
Additions during the year – new purchases	-	11.355	897	185.148	-	197.400
Disposal	-	(1.759)	(524)	(190.902)	-	(193.185)
Balance as at 31 December 2021	9.263	32.078	4.434	66.348	597	112.720
ACCUMULATED DEPRECIATION						
Balance as at 1 January 2020	8.442	6.135	1.630	51.627	-	67.834
Amortization (Note 11)	821	6.465	612	-	-	7.898
Disposal	-	-	(146)	-	-	(146)
Increase / decrease value impairment	-	-	-	4.407	-	4.407
Balance as at 31 December 2020	9.263	12.600	2.096	56.034	-	79.993
Amortization (Note 11)	-	6.508	629	-	-	7.137
Disposal	-	(1.759)	(524)	-	-	(2.283)
Increase / decrease value impairment	-	-	-	9.689	-	9.689
Balance as at 31 December 2021	9.263	17.349	2.201	65.723	-	94.536
Net book value as of:						
- 31 December 2021	-	14.729	2.233	625	597	18.184
- 31 December 2020	-	9.883	1.965	16.069	597	28.514

** The Vehicles and Real-estate on lease column present amounts with the right of use in accordance with IFRS 16 Leasing.*

The Company has no restrictions on ownership of equipment as of 31 December 2021, nor has any item of equipment been pledged as a collateral.

Based on the Company's management estimates, as at 31 December 2021 there are no indications that the value of the equipment is impaired.

21. IFRS 16 LEASING

Right-of-use assets, commercial premises and vehicles, in 2021:

	Real-estate on lease	Passenger vehicles on lease	Total
Balance as at 1 January 2021	3,605	6,278	9,883
Increases during the year	8,153	3,201	11,354
Depreciation during the year	(4,419)	(2,089)	(6,508)
Balance as at 31 December 2021	7,339	7,390	14,729

21. IFRS 16 LEASING (continued)

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

	Real-estate on lease	Passenger vehicles on lease	Total
Interest expense	165	91	256
Depreciation expense	4,419	2,089	6,508
Total	4,584	2,180	6,764

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

Payments for lease of real-estate	4,392	4,557
Payments for lease of passenger vehicles	2,485	2,327
Total	6,877	6,884

22. OTHER ASSETS

	2021	2020
Insurance receivables	6,247	4,894
VAT receivables	6,320	0
Receivables for unconfirmed changes in tax base	1,562	1,261
Other prepayments and deferred expenses	6,116	3,367
Prepaid expenses	27,285	20,611
Receivables on sale of leased assets	25,231	43,777
Prepayments	34,907	13,509
Other receivables	1,812	3,661
Balance as at 31 December	109,480	91,083

Change in prepaid expenses in 2021 was due to the increase in agent fees in placements paid during the year and the expense is posted using the degresive 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 2021 amounted to RSD 26,522 thousand, while the balance as at 31 December 2020 amounted to RSD 18,820 thousand.

Receivables on sale of leased assets relate to 56 items sold with deferred lease deals that were negotiated with the buyers of these items. These receivables are due for collection for a period of up to two years (as of December 31, 2020, the receivables related to the sale of 55 leasing items).

In the prepayments, the largest part refers to prepayments for the purchase of items of leasing as at 31 December 2021 in the amount of RSD 34,907 thousand (as at 31 December 2020 RSD 13,262 thousand).

23 LONG - TERM AND SHORT - TERM FINANCIAL LIABILITIES

Overviews of financial liabilities based on funds borrowed from banks and other financial institutions are provided below:

A) Long-term financial liabilities

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

	2021	2020
Portion of long-term borrowings with maturity from 1 to 5 years in the country	766,682	7,818,062
Portion of long-term borrowings with maturity from 1 to 5 years from abroad	14,133,627	7,394,458
Portion of long-term borrowings with maturity over 5 years from abroad	1,633,085	194,786
Total liabilities	16,533,394	15,407,306
Deferred disbursement fees on borrowings in the country	(1,197)	(12,075)
Deferred disbursement fees on borrowings from abroad	(14,187)	(14,574)
Balance as at 31 December	16,518,008	15,380,657

B) Short-term financial liabilities

	2021	2020
Liabilities based on short-term loans in the country	1,238,442	-
Liabilities based on interest on loans in the country	1,407	10,258
Liabilities based on interest on foreign loans	3,067	-
The part of liabilities on long-term loans in the country that matures up to a year	300,863	2,567,227
Part of liabilities for long-term loans from abroad maturing up to one year	2,406,197	2,356,684
Total liabilities	3,949,776	4,934,169
Accruals and deferrals based on interest and long-term loan guarantees	13,536	19,297
Deferred loan approval costs in the country	(1,643)	(9,238)
Deferred costs of loan approval from abroad	(8,831)	(7,812)
Balance as at 31 December	3,953,038	4,937,416

Financial liabilities arising from borrowing from banks are reduced by prepaid expenses on the basis of approval of received loans, which are deferred in the periods in which the loans are used.

Financial liabilities arising from borrowings from banks have been increased by accrued interest and deferred costs of guarantees on the basis of received loans

23. LONG - TERM AND SHORT - TERM FINANCIAL LIABILITIES (continued)

B) Short-term financial liabilities (continued)

As at 31 December 2021 the Company did not have approved and unused borrowings.

The interest rate on long-term borrowings from abroad ranges from 0.00% up to 2.905% per annum, depending on the maturity period and the time of their negotiation.

Contractual repayment of long-term borrowings from abroad are from 5 to 11 years.

As at December 31, 2021, the Company did not have covenants above the limit under contracts with creditors where it was defined.

Finance liabilities by creditors

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

Creditor	Balance as at 1 January 2021	Drawdowns during the year	Repayments during the year	Other drawdowns / decreases during the year	Balance as at 31 December 2021
Banca Intesa a.d. Beograd	10,395,548	2,856,871	(10,935,615)	(9,410)	2,307,394
VUB Bank	-	2,351,373	-	269	2,351,642
European Investment Bank	2,806,894	4,702,400	(522,538)	903	6,987,659
KfW Entwicklungsbank	1,176,037	-	(391,720)	(44)	784,273
Banka Intesa Sanpaolo d.d.	2,351,604	3,527,335	(470,288)	3,193	5,411,844
European Bank for Reconstruction and Development	3,611,392	-	(971,185)	351	2,640,558
Total	20,341,475	13,437,979	(13,291,346)	(4,738)	20,483,370

The balance of loans as at 31 December 2021 of RSD 20,478,896 thousand represents the amount of outstanding principal on loans i.e. financial liabilities on loans without interest liabilities, without accrued costs of interest and guarantees and without deduction for deferred approval costs.

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 2021 and 31 December 2020 in the amount of discounted present value of future payments. When determining the present value of the expected outflows, the discount rate of 3.25% 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 5% a year and annual employee turnover of 7.0%.

Structure of provisions is shown in the following table:

	2021	2020
Long-term provisions for retirement benefits	1,134	865
Provisions for court cases	7,346	11,656
Balance as at 31 December	8,480	12,521

Movements in provisions during the year were as follows:

	2021	2020
Balance as at 1 January	12,521	18,786
Long-term provisions for retirement benefits (Note 11)	269	299
Provisions for court cases (Note 13)	(4,310)	(6,564)
Balance as at 31 December	8,480	12,521

The assessment of the risk of loss in connection with litigation and the provision for contingent liabilities relate to the amount of RSD 7,346 thousand (2020: RSD 11,656 thousand) related to three passive litigation proceedings initiated against the Company (as of December 31, 2020, seven passive litigations proceedings were ongoing).

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

25 OTHER LIABILITIES

	2021	2020
Trade payables	27,045	26,337
Payables to customers	105,740	40,223
Liabilities for unused vacations	4,146	3,297
Other deferrals	3,255	7,292
Tax payable	86	93
Value added tax payable	-	10,576
Liabilities for salaries and salary compensation	13,189	8,988
Long-term lease liabilities	14,867	9,975
Other liabilities	598	1,773
Balance as at 31 December	168,926	108,554

Other payables to customers in the amount of RSD 105,740 thousand as of December 31, 2021 (December 31, 2020: RSD 40,223 thousand) mostly relate to prepaid lease instalments by customers in the amount of RSD 67,163 thousand (2020: RSD 37,138 thousand).

25 OTHER LIABILITIES (continued)

An overview of long-term lease liabilities is provided below:

	Lease liabilities-business premises	Lease liabilities-vehicles	Total
Balance on January 1, 2020	8,106	8,276	16,382
Increases during the year	-	-	-
Decreases – repayment during the year	(4,467)	(1,940)	(6,407)
Balance on December 31,2020	3,639	6,336	9,975
Increases during the year	8,153	3,202	11,355
Decreases – repayment during the year	(4,392)	(2,071)	(6,463)
Balance on December 31, 2021	7,400	7,467	14,867

Future minimum lease payments in accordance with concluded lease agreements are presented as follows:

	Sadašnja vrednost	Ugovorni nediskontovani novčani tokovi
Up to 1 year	3,366	3,608
From 1 to 5 years	3,432	8,965
Over 5 years	8,069	2,565
Total as of December 31, 2021.	14,867	15,138

26 STARE CAPITAL

The Company's share capital structure by stakeholders' contribution as at 31 December 2021 and 2020 is presented in the table below:

	2021	2020
Banca Intesa a.d. Beograd	960,374	960,374
Balance as at 31 December	960,374	960,374

As at 31 December 2021 Banca Intesa Beograd a.d. Beograd is the sole owner of the Company with 100% share in the Company's share (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.

26 STARE CAPITAL (continued)

The pecuniary portion of the initial capital of the Company as at 31 December 2021 satisfies the minimal required amount prescribed by Article 10a of the Law on Financial Leasing ("RS Official Gazette". no. 55/2003, 61/2005, 31/2011 and 99/2011).

27 RESERVES, REVALUATION RESERVES AND UNREALIZED GAINS

The structure of the Company's reserves as at 31 December 2021 and 2020 is as follows:

	2021	2020
Unrealized gains on the market value of securities	7,812	19,433
Other reserves – transferred gains	404,726	298,047
Balance as at 31 December	412,538	317,480

Unrealized gain in 2021 is the result of the valuation of securities (Note 17) to the market value at the reporting date in the amount of RSD 3,614 thousand (December 31, 2020: RSD 18,045 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 2021 in the amount of RSD 4,198 thousand (31 December 2020: RSD 1,388 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 2021 amounted to RSD 163,010 thousand (31 December 2020: RSD 106,679 thousand) and consist of the profit for the current year.

29 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Court cases

As at 31 December 2021, three passive legal disputes were conducted against the Company. The total value of these court disputes is RSD 7,346 thousand (December 31, 2020: RSD 4,969 thousand) and, according to the management's assessment, the Company is expected to lose these disputes for which it formed provisions for potential losses on this basis (Note 27).

(b) Tax risks

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

30 RELATED PARTY TRANSACTIONS

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

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

	2021	2020
Guarantees Intesa Sanpaolo S.p.A. Milano	9,235,816	6,418,521
Guarantees Banca Intesa a.d. Beograd	1,941,600	1,874,683
Balance as at 31 December	11,177,416	8,293,204

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

Outstanding balances of receivables and liabilities as at 31 December 2021 and 2020 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	2021	2020
Cash (Note 15)	171,874	2,508,871
Term deposits	1,058,356	834,819
Receivables from finance lease activities	-	1,988
Receivables under SLA contract	427	349
Interest receivable for transactional deposits	27	60
Balance as at 31 December	1,230,684	3,346,087

Liabilities to Banca Intesa a.d. Beograd	2021	2020
Long-term financial liabilities (Note 23)	766,682	7,818,062
Short-term financial liabilities (Note 23)	1,539,305	2,567,227
Interest payables (Note 23)	1,407	10,258
Deferred disbursement fees on approval of borrowings in the country (Note 23)	(2,840)	(21,313)
Long-term lease liabilities	7,400	3,639
Other liabilities	20,576	19,119
Balance as at 31 December	2,332,530	10,396,992

Income from Transactions with Banca Intesa a.d. Beograd	2021	2020
Interest income on deposits (Note 5)	285	1,843
Interest income from finance lease activities	14	123
Fee and commission income	3	19
Net income from exchange rate differentials and currency clause effects	-	2,107
Total	302	4,092

30 RELATED PARTY TRANSACTIONS (continued)

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

Expenses from Transactions with Banca Intesa a.d. Beograd	2021	2020
Interest expenses (Note 5)	75,232	112,220
Fee and commission expenses	4,516	-
Expenses on SLA contract (Note 13(a))	16,579	15,551
Net expense from exchange rate differences and the effects of the agreed currency clause	3,062	-
Other expenses	7,403	5,689
Total	106,792	133,460

In the structure of other expenses with the related party Banca Intesa a.d. Belgrade the largest share is held by commission expenses in acting as agent for finance lease placements and as at 31 December 2021 they were RSD 3,874 thousand (as at 31 December 2020, RSD 2,611 thousand).

(b) Transactions with Other Related Parties

As at 31 December 2021 and 2020 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	2021	2020
Intesa Invest a.d. Beograd: Financial assets - investment units	363,718	210,885
Intesa Sanpaolo S.p.A. Milano: Other assets	-	482
Balance as at 31 December	363,718	211,367

Liabilities to Intesa Sanpaolo S.p.A. Milano	2021	2020
Liabilities for accrued costs of guarantees	4,244	10,211
Other liabilities	24	24
Balance as at 31 December	4,268	10,235

Liabilities to Banka Intesa Sanpaolo d.d. Kopar	2021	2020
Long-term financial liabilities (Note 23)	4,938,448	1,881,283
Short-term financial liabilities (Note 23)	470,328	470,321
Interest liabilities	3,067	-
Deferred loan approval costs	(7,348)	-
Other liabilities	-	3,527
Balance as at 31 December	5,404,496	2,355,131

Liabilities to VUB	2021	2020
Long-term financial liabilities (Note 23)	2,351,642	-
Deferred loan approval costs	(1,423)	-
Balance as at 31 December	2,350,219	-

30 RELATED PARTY TRANSACTIONS (continued)

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(b) Transactions with Other Related Parties (continued)

Expenses from Transactions with the Members of Intesa Sanpaolo Group	2021	2020
Fee and commission expenses Intesa Sanpaolo S.p.A. Milano	9,391	9,414
Expenses of approval fees Banka Intesa Sanpaolo d.d. Koper	1,782	-
Expenses of VUB approval fees	351	-
Interest expenses Banka Intesa Sanpaolo d.d. Koper	21,622	-
Interest expenses VUB	8,118	-
Total	41,327	9,414

(c) Salaries of the Key Management Personnel

During the 2021 and 2020 salaries in the following amounts were paid to the Company's management:

	2021	2020
Total gross salaries	29,035	28,116
Total net salaries	21,102	20,734

No remunerations were paid to the members of the Board of Directors in 2021 and 2020.

31 RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

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

Risk management procedures are as follows:

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

31 RISK MANAGEMENT (continued)

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

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

31.1 Credit risk

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

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

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

Credit risk management is carried out at the following levels:

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

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

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

The credit process in the Company is regulated by the Credit Risk Management Procedure, starting as of December 28, 2021, as follows:

The credit process in the Company consists of:
- automated credit approval process
- accelerated credit process

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 executing a transaction.

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

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

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

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

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

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

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

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

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

In 2021, the committee for managing non-performing placements was giving recommendations for finding the best possible solutions for dealing with bad and non-performing receivables.

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

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

	2021	2020
Cash	171,874	2,508,871
Financial placements held with banks	1,058,356	834,819
Other financial placements and derivatives	1,099,089	961,587
Receivables from finance lease activities	19,723,692	17,373,979
Other assets - receivables from the sale of leased objects	26,231	43,778
Maximum Exposure to Credit Risk	22,079,242	21,723,034

(a) Portfolio Quality

The following table presents the quality of the gross portfolio, i.e. receivables from finance lease activities excluding short-term receivables, accrued interest income and deferred origination fees (Note 18) by types of placement, based on the Company's internal classification system, and allowances for impairment of finance lease receivables as at 31 December 2021:

	Performing	Past Due	Unlikely to pay	Doubtful	Total 31 December 2021
Receivables from Customers					
Corporate Customers	973,180	-	-	-	973,180
Medium enterprises	4,738,541	-	-	-	4,738,541
Small enterprises	9,028,587	4,400	3,647	95,474	9,132,108
Micro enterprises	3,064,188	47,398	5,117	89,356	3,206,059
Entrepreneurs	1,619,404	25,161	23,239	23,595	1,691,399
Retail Customers	238,254	4,733	-	6,758	249,745
Farmers	35,709	-	-	62,393	98,102
Other clients	55,959	-	-	-	55,959
Total	19,753,822	81,692	32,003	277,576	20,145,093
Participation in the total gross receivables	98.06%	0.41%	0.16%	1.38%	100.00%
Receivables from Customers					
Corporate Customers	1,299	-	-	-	1,299
Medium enterprises	8,878	-	1,151	-	8,878
Small enterprises	34,472	778	577	88,438	124,265
Micro enterprises	22,382	8,631	892	81,301	113,206
Entrepreneurs	18,045	6,614	4,235	10,437	39,421
Retail Customers	1,089	880	-	6,758	8,727
Farmers	202	-	-	61,851	62,053
Other clients	187	-	-	-	187
Total	86,554	16,903	5,794	248,785	358,036
Participation in the total impairment provision	24.17%	4.72%	1.62%	69.49%	100.00%

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

(a) Portfolio Quality (continued)

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

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

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

(a) Portfolio Quality (continued)

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

Internal rating 2021	Gross placements	Share of gross placements in total placements	Impairment	Share of impairment in total impairments
Inter Company	-	0.00%	-	0.00%
A1	396,864	1.97%	93	0.03%
A2	2,033,254	10.09%	464	0.13%
A3	3,177,343	15.77%	1,705	0.48%
B1	3,524,453	17.50%	3,373	0.94%
B2	2,765,044	13.73%	7,428	2.07%
B3	3,465,747	17.20%	12,278	3.43%
B4	1,666,584	8.27%	10,783	3.01%
C1	760,835	3.78%	9,708	2.71%
C2	353,503	1.75%	7,114	1.99%
C3	201,244	1.00%	12,401	3.46%
D	391,270	1.94%	271,482	75.83%
S13	55,230	0.27%	128	0.04%
STRONG	269,183	1.34%	786	0.22%
Unrated	1,084,539	5.38%	20,293	5.67%
Total 31/12/2021	20,145,093	100.00%	358,036	100.00%

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

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

(a) Portfolio Quality (continued)

The following tables present the quality of the portfolio of net placements, i.e. receivables from finance lease activities, excluding short-term receivables, accrued interest income and deferred origination fees by types of placement, based on the Company's internal classification system, as at 31 December 2021 and 2020:

	Performing	Past Due	Unlikely to pay	Doubtful	Total 31 December 2021
Receivables from Banca Intesa a.d. Beograd	-	-	-	-	-
Receivables from Customers					
Corporate Customers	971,881	-	-	-	971,881
Medium enterprises	4,729,664	-	-	-	4,729,664
Small enterprises	8,994,114	3,621	3,070	7,037	9,007,842
Micro enterprises	3,041,806	38,767	4,226	8,055	3,092,854
Entrepreneurs	1,601,359	18,547	18,914	13,158	1,651,978
Retail Customers	237,165	3,853	-	-	241,018
Farmers	35,507	-	-	541	36,048
Other Institutions	55,772	-	-	-	55,772
Total	19,667,268	64,788	26,210	28,791	19,787,057
Participation in the total net receivables	99.39%	0.33%	0.13%	0.15%	100.00%

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

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

(a) Portfolio Quality (continued)

Aging Structure of Overdue Receivables of Performing Receivables

The aging analysis of overdue receivables from performing customers as at 31 December 2021 is presented in the table below:

	Overdue to 30 days	Overdue 31 to 60 days	Overdue 61 to 90 days	Undue	Total 31 December 2021
Receivables from customers					
Corporate Customers	3,992	2,751	-	966,438	973,181
Medium enterprises	9,497	2,513	-	4,726,531	4,738,541
Small enterprises	22,768	36,974	37,584	9,034,782	9,132,108
Micro enterprises	21,287	3,300	61,630	3,119,842	3,206,059
Entrepreneurs	8,729	1,689	8,166	1,672,816	1,691,400
Retail Customers	1,060	54	6,758	241,873	249,745
Farmers	716	-	61,719	35,665	98,100
Other Institutions	1	-	-	55,958	55,959
Total	68,050	47,281	175,857	19,853,905	20,145,093
Participation in total overdue receivables of high and standard quality	0,34%	0,23%	0,87%	98,55%	100,00%

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

	Overdue to 30 days	Overdue 31 to 60 days	Overdue 61 to 90 days	Undue	Total 31 December 2020
Banks	-	-	-	1,988	1,988
Receivables to customers					
Corporate Customers	3,571	-	-	1,162,807	1,166,378
Medium enterprises	8,060	622	447	4,583,175	4,592,304
Small enterprises	22,804	607	36,040	7,115,163	7,174,614
Micro enterprises	14,973	1,629	89,327	3,179,127	3,285,056
Entrepreneurs	5,309	233	6,005	1,118,197	1,129,744
Retail Customers	849	30	6,681	226,303	233,863
Farmers	1,265	36	63,144	69,067	133,512
Other Institutions	1	-	-	38,594	38,595
Total	56,832	3,157	201,644	17,494,421	17,756,054
Participation in total overdue receivables of high and standard quality	0,32%	0,02%	1,14%	98,53%	100,00%

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

(b) Maximum Exposure to Credit Risk

The structure of the Company's maximum exposure to credit risk, expressed in the gross portfolio, i.e. receivables from finance lease activities excluding short-term receivables, accrued interest income and deferred origination fees (Note 18) as at 31 December 2021, by geographical areas, is given in the following table:

Geographical region	Receivables from Customers	Allowance for impairment	Net 31/12/2021	% Participation in net receivables
Vojvodina	7,316,833	(99,743)	7,217,090	36.47%
Belgrade	8,943,304	(148,280)	8,795,024	44.42%
South and East Serbia	922,505	(46,491)	876,014	4.43%
Sumadija and West Serbia	2,962,451	(63,522)	2,898,929	14.65%
Total	20,145,093	(358,036)	19,787,057	100.00%

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

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

The analysis of the Company's exposure to credit risk, by sectors, ie types of leasing items, is stated at the value of gross placements, ie receivables from financial leasing without other receivables from financial leasing, accrued interest and no prepaid handling costs. The largest share belongs to the Transport sector with 30.28%, the largest increase in the share in the portfolio had the sector Other activities of 1.34% compared to 2020, ie the largest decline in participation was recorded by the sector Agriculture, forestry and fisheries of 1.36 % compared to 2020.

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

(b) Maximum Exposure to Credit Risk (continued)

Analysis as at 31 December 2021 and 2020, is presented in the tables below:

Structure by sectors	Maximum exposure 2021	Percentage of exposure 2021	Maximum exposure 2020	Percentage of exposure 2020
1 Agriculture, forestry and fishing	1,167,932	5.90%	1.264.077	7,26%
2 Mining industry; Processing industry; Water supply, waste water management and related activities	2,500,777	12.64%	2.071.867	11,89%
3 Power supply, gas, steam supply and air conditioning	52,887	0.27%	54.546	0,31%
4 Construction	3,153,942	15.94%	2.594.830	14,90%
5 Wholesale and retail, vehicles and motorcycles repair	2,057,335	10.40%	1.876.508	10,77%
6 Transportation and storage; information and communications	5,991,935	30.28%	5.454.439	31,31%
7 Hotels and restaurants	272,978	1.38%	257.166	1,48%
8 Financial activities and insurance	30,566	0.15%	34.558	0,20%
9 Health care and social work	169,284	0.86%	181.868	1,04%
10 Other industries	4,389,421	22.18%	3.630.348	20,84%
Total	19,787,057	100.00%	17.420.207	100,00%

Exposure by leased asset	Maximum exposure 2021	Percentage of exposure 2021	Maximum exposure 2020	Percentage of exposure 2020
1 Production machines and equipment	78,030	0.39%	5,130	0.03%
2 Construction machines and equipment	2,463,701	12.45%	1,817,146	10.43%
3 Agriculture machines and equipment	968,217	4.89%	1,119,579	6.43%
4 Trucks, vans and buses	8,591,499	43.42%	7,958,930	45.69%
5 Passenger vehicles	5,276,572	26.67%	4,512,222	25.90%
6 Rail vehicles, watercraft and aircraft	19,321	0.10%	12,924	0.07%
7 House appliances	-	-	-	-
8 Machines and equipment for service provision	-	-	-	-
9 Other movables	1,048,655	5.30%	977,950	5.61%
10 Commercial properties	1,236,509	6.39%	935,599	5.37%
11 Other properties	77,553	0.39%	80,727	0.46%
Total	19,787,057	100.00%	17,420,207	100.00%

The largest share has trucks and buses of 43.42% with a decline in participation in the structure of 2.27% compared to 2020, which is also the largest decline in participation in the structure of exposure during the year. The maximum exposure according to the type of leasing object is 55% of the value of the total exposure. In the observed periods, the Company did not exceed the exposure limit according to the type of leasing object. During the year, the largest increase in exposure was in the subject of construction machinery and equipment of 2.02% compared to 2020.

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

(b) Maximum Exposure to Credit Risk (continued)

Exposure Risk

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

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

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

Exposure risk is measured in relation to the Company's equity. As of 31 December 2021, 15 clients with the largest net receivables individually have exposure risk exceeding 10% of the Company's equity (2020: 15 clients).

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

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

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

	2021	2020
Carrying amount of the allowance for impairment for receivables	358,036	335,847
Allowance for impairment of receivables without collateral	360,266	336,005
Effect on the calculation of the allowance for impairment of receivables	2,230	158
Effect on the calculation of collective allowances for impairment	2,230	158
Effect on the calculation of individual allowances for impairment	-	-

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

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

(b) Maximum Exposure to Credit Risk (continued)

Analysis of Collateral

Analysis of the portfolio by collateral type as at 31 December 2021 and 31 December 2020 is given in the following table:

	2021		2020	
	Gross placement	Total value of the collateral	Gross placement	Total value of the collateral
Receivables from corporate customers	18,059,299	17,181,647	16,231,165	15,304,256
Secured by mortgage	51,495	44,653	71,303	71,303
Secured by deposit and guarantee	1,844,417	1,117,526	1,194,423	1,194,423
Secured by leasing asset	16,163,387	16,019,387	14,965,439	14,038,530
Unsecured by collateral	-	-	-	-
Receivables from entrepreneurs, retail customers and farmers:	2,039,243	1,898,802	1,497,120	1,368,914
Secured by mortgage	5,267	5,267	-	-
Secured by deposit	1,742	208	208	208
Secured by leasing asset	2,032,236	1,893,327	1,496,912	1,368,706
Unsecured by collateral	-	-	-	-
Receivables from Banks	-	-	1,988	1,988
Secured by mortgage	-	-	-	-
Secured by deposit	-	-	-	-
Secured by leasing asset	-	-	1,988	1,988
Unsecured by collateral	-	-	-	-
Receivables from State and Local Government	46,549	46,310	25,781	25,326
Secured by mortgage	-	-	-	-
Secured by deposit	-	-	-	-
Secured by leasing asset	46,549	46,310	25,781	25,326
Unsecured by collateral	-	-	-	-
Total as at 31 December	20,145,093	19,126,759	17,756,054	16,700,484

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

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

(b) Maximum Exposure to Credit Risk (continued)

Analysis of Collateral (continued)

A presentation of the ratio between receivables and collateral value (LTV ratio) at 31 December 2021 and 31 December 2020 is given in the following table:

LTV ratio	2021 Amount of receivable	LTV ratio	2020 Amount of receivable
<50%	1,502,784	<50%	1,391,751
51% - 70%	3,711,710	51% - 70%	2,983,371
71% - 90%	5,144,034	71% - 90%	4,596,794
91% - 100%	3,196,260	91% - 100%	3,028,024
>100%	6,590,305	>100%	5,756,114
Ukupno	20,145,093	Ukupno	17,756,054

The LTV ratio in 91% - 100% range and >100% in 2021 registered the highest increase due to the increase in new placements.

(c) Assessment of Impairment of Financial Assets

Structure of the allowance for impairment of financial assets, i.e. receivables from finance lease activities excluding short term receivables, accrued interest income and deferred processing fees as at 31 December 2021 and 2020 is presented below:

2021	Gross receivables from finance lease activities	Allowance for impairment	Net receivables from finance lease activities
Receivables - Banca Intesa a.d. Beograd	-	-	-
Corporate Customers	973,180	(1,299)	971,881
Medium enterprises	4,738,541	(8,878)	4,729,664
Small enterprises	9,132,108	(124,265)	9,007,843
Micro enterprises	3,206,059	(113,206)	3,092,853
Entrepreneurs	1,691,399	(39,421)	1,651,978
Retail Customers	249,745	(8,727)	241,018
Farmers	98,102,	(62,053)	36,049
Other Institutions	55,959	(187)	55,771
Total	20,145,093	(358,036)	19,787,057

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

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

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

Structure of impairment of financial assets by the model of impairment calculation as at 31 December 2021 and 2020 is presented in the following tables:

2021	Gross receivables from finance lease activities	% gross receivables	Allowance for impairment	% total impairment
Group impairment assessment	20,106,752	99.81%	(325.367)	90.88%
Individual impairment assessment	38,341	0.19%	(32,669)	9.12%
Total	20,145,093	100.00%	(358,036)	100.00%

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

Off-balance sheet exposure for receivables that were derecognized in 2021 amounted to RSD 40,113 thousand, although these are still the subject of collection. Receivables derecognized in 2021 include receivables for damages following the sale of repossessed lease assets.

31 RISK MANAGEMENT (continued)

31.1 Credit risk (continued)

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

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

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

	2021	2020
Balance as at 1 January	1,389	2,715
Increase in calculation during the year	2,812	-
Decrease in calculation during the year	(2)	(1,326)
Balance as at 31 December	4,199	1,389

31.2 Liquidity risk

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

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

Objectives of liquidity management comprise:

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

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

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

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

Furthermore, the Company has contracted long term credit lines as an instrument for liquidity management as of 31 December 2021.

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

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

31 RISK MANAGEMENT (continued)

31.2 Liquidity risk (continued)

	Carrying amount	Gross amount	Up to 30 days	1 to 3 months	3 to 6 months	6 to 12 months	12 to 18 months	18 months to 5 years	Over 5 years	Gross amount Undefined maturity*
ASSETS										
Cash	171,874	171,874	171,874	-	-	-	-	-	-	-
Short-term financial assets	2,157,445	2,157,445	617,937	-	-	1,058,356	113,820	-	-	367,332
Short - term financial leasing receivables	7,012,887	7,285,755	973,079	1,366,415	1,757,249	3,207,975	-	-	-	(18,963)
Intangible assets	23,268	72,914	-	-	-	-	-	-	-	72,914
Property, plant and equipment	18,184	112,719	-	-	-	-	-	-	-	112,719
Long-term receivables financial leasing	12,710,805	12,809,428	-	-	-	-	2,771,876	9,484,030	601,301	(47,779)
Deferred tax assets	3,030	3,030	-	-	-	-	-	-	-	3,030
Other assets	109,480	163,259	20,449	12,608	7,190	4,000	410	52	-	118,550
TOTAL ASSETS	22,206,973	22,776,424	1,783,339	1,379,023	1,764,439	4,270,331	2,886,106	9,484,082	601,301	607,803
EQUITY AND LIABILITIES										
Stake capital	960,374	960,374	-	-	-	-	-	-	-	960,374
Profit	163,010	163,010	-	-	-	-	-	-	-	163,010
Reserves	412,538	412,538	-	-	-	-	-	-	-	412,538
Long-term financial liabilities	16,518,008	16,518,008	-	-	-	-	1,485,383	13,414,926	1,633,084	(15,385)
Short-term financial liabilities	3,953,038	3,953,038	320,256	617,665	1,096,508	1,929,083	-	-	-	(10,474)
Reservations	8,480	8,480	-	-	-	7,347	-	-	-	1,133
Current tax liabilities	22,599	22,599	-	-	22,599	-	-	-	-	-
Other obligations	168,926	168,926	95,051	5,170	844	14,817	1,713	6,338	3,433	41,560
TOTAL EQUITY AND LIABILITIES	22,206,973	22,206,973	415,307	622,835	1,119,951	1,951,247	1,487,096	13,421,264	1,636,517	1,552,756
Liquidity gap as at 31 December 2021		569,451	1,368,032	756,188	644,488	2,319,084	1,399,010	(3,937,182)	(1,035,216)	(944,953)
Cumulative liquidity gap		569,451	1,368,032	2,124,220	2,768,708	5,087,792	6,486,802	2,549,620	1,514,404	-

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

31 RISK MANAGEMENT (continued)

31.2 Liquidity risk (continued)

	Carrying amount	Gross amount	Up to 30 days	1 to 3 months	3 to 6 months	6 to 12 months	12 to 18 months	18 months to 5 years	Over 5 years	Gross amount Undefined maturity*
ASSETS										
Cash	2,508,871	2,508,871	2,508,871	-	-	-	-	-	-	-
Short-term financial assets	1,796,406	1,796,406	-	-	-	-	618,069	949,407	-	228,930
Short - term financial leasing receivables	6,013,363	6,272,346	894,030	1,123,859	1,451,769	2,842,560	-	-	-	(39,872)
Intangible assets	21,790	64,004	-	-	-	-	-	-	-	64,004
Property, plant and equipment	28,514	108,508	-	-	-	-	-	-	-	108,508
Long-term receivables financial leasing	11,360,616	11,450,210	-	-	-	-	2,461,277	8,506,028	523,249	(40,344)
Deferred tax assets	3,786	3,786	-	-	-	-	-	-	-	3,786
Other assets	91,083	155,918	10,922	14,849	6,370	12,938	11,397	250		99,192
TOTAL ASSETS	21,824,429	22,360,049	3,413,823	1,138,708	1,458,139	2,855,498	3,090,743	9,455,685	523,249	424,204
EQUITY AND LIABILITIES										
Stake capital	960,374	960,374	-	-	-	-	-	-	-	960,374
Profit	106,679	106,679	-	-	-	-	-	-	-	106,679
Reserves	317,480	317,480	-	-	-	-	-	-	-	317,480
Long-term financial liabilities	15,380,657	10,406,685					2,302,785	7,935,761	194,787	(26,648)
Short-term financial liabilities	4,937,416	9,911,387	381,553	881,924	1,292,829	7,372,132				(17,051)
Reservations	12,521	12,521				11,655				866
Current tax liabilities	748	748			748					0
Other obligations	108,554	108,554	74,976	8,057	10,297	2,814	996	3,372		8,042
TOTAL EQUITY AND LIABILITIES	21,824,429	21,824,428	456,529	889,981	1,303,874	7,386,601	2,303,781	7,939,133	194,787	1,349,742
Liquidity gap as at 31 December 2020		535,621	2,957,294	248,727	154,265	(4,531,103)	786,962	1,516,552	328,462	(925,538)
Cumulative liquidity gap		535,621	2,957,294	3,206,021	3,360,286	(1,170,817)	(383,855)	1,132,697	1,461,159	-

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

31 RISK MANAGEMENT (continued)

31.3 Market risk

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

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

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

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

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

31.3.1 Interest Rate Risk

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

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

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

The following table shows the Repricing Gap Report, i.e. the Company's exposure to the interest rate risk as at 31 December 2021. 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.

30 RISK MANAGEMENT (continued)

31.3 Market Risk (continued)

31.3.1 Interest Rate Risk (continued)

	Carrying amount	Up to 30 days	1 to 3 months	3 to 6 months	6 to 12 months	12 to 18 months	18 months to 5 years	Over 5 years	Non-interest sensitive
ASSETS									
Cash	171,874	171,874	-	-	-	-	-	-	-
Financial placements held with banks	2,157,445	617,937	-	-	1,058,356	113,820	-	-	367,332
Intangible assets	23,268	-	-	-	-	-	-	-	23,268
Property, plant and equipment	18,184	-	-	-	-	-	-	-	18,184
Long-term and short-term receivables financial leasing	19,723,692	318,502	12,851,565	1,038,866	1,271,261	1,128,826	3,108,158	427,914	(421,400)
Deferred tax assets	3,030	-	-	-	-	-	-	-	3,030
Other assets	109,480	-	-	-	-	-	-	-	109,480
TOTAL ASSETS	22,206,973	1,108,313	12,851,565	1,038,866	2,329,617	1,242,646	3,108,158	427,914	99,894
EQUITY AND LIABILITIES									
Stake capital	960,374	-	-	-	-	-	-	-	960,374
Profit	163,010	-	-	-	-	-	-	-	163,010
Reserves	412,538	-	-	-	-	-	-	-	412,538
Long term and Short-term financial liabilities	20,471,046	541,779	9,484,066	2,102,637	769,359	587,785	6,148,539	849,204	(12,323)
Reservations	8,480	-	-	-	-	-	-	-	8,480
Current tax liabilities	22,599	-	-	-	-	-	-	-	22,599
Other obligations	168,926	-	-	-	-	-	-	-	168,926
TOTAL EQUITY AND LIABILITIES	22,206,973	541,779	9,484,066	2,102,637	769,359	587,785	6,148,539	849,204	1,723,604
Periodic GAP as at 31 December 2021		566,534	3,367,499	(1,063,771)	1,560,258	654,861	(3,040,381)	(421,290)	(1,623,710)
Cumulative GAP		566,534	3,934,033	2,870,262	4,430,520	5,085,381	2,045,000	1,623,710	-

31 RISK MANAGEMENT (continued)

31.3 Market Risk (continued)

31.3.1 Interest Rate Risk (continued)

	Carrying amount	Up to 30 days	1 to 3 months	3 to 6 months	6 to 12 months	12 to 18 months	18 months to 5 years	Amount over 5 years	Non-interest sensitive
ASSETS									
Cash	2,508,871	2,508,871	-	-	-	-	-	-	-
Financial placements held with banks	1,796,406	-	-	-	-	618,069	949,407	-	228,930
Intangible assets	21,790	-	-	-	-	-	-	-	21,790
Property, plant and equipment	28,514	-	-	-	-	-	-	-	28,514
Short-term and Long-term receivables financial leasing	17,373,979	364,605	9,867,972	1,468,559	1,289,711	1,102,944	3,221,629	440,634	-382,075
Deferred tax assets	3,786	-	-	-	-	-	-	-	3,786
Other assets	91,083	-	-	-	-	-	-	-	91,083
TOTAL ASSETS	21,824,429	2,873,476	9,867,972	1,468,559	1,289,711	1,721,013	4,171,036	440,634	(7,972)
EQUITY AND LIABILITIES									
Stake capital	960,374	-	-	-	-	-	-	-	960,374
Profit	106,679	-	-	-	-	-	-	-	106,679
Reserves	317,480	-	-	-	-	-	-	-	317,480
Short-term and Long-term financial liabilities	20,318,073	691,671	9,814,584	3,050,822	1,006,262	1,052,013	4,531,336	194,786	-23,401
Reservations	12,521	-	-	-	-	-	-	-	12,521
Current tax liabilities	748	-	-	-	-	-	-	-	748
Other obligations	108,554	-	-	-	-	-	-	-	108,554
TOTAL EQUITY AND LIABILITIES	21,824,429	691,671	9,814,584	3,050,822	1,006,262	1,052,013	4,531,336	194,786	1,482,955
Periodic GAP as at 31 December 2020		2,181,805	53,388	-1,582,263	283,449	669,000	(360,300)	245,848	(1,490,927)
Cumulative GAP		2,181,805	2,235,193	652,930	936,379	1,605,379	1,245,079	1,490,927	-

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, 2021 is RSD 1,623,710 thousand (December 31, 2020: RSD 1,490,927 thousand) and can be considered an acceptable level of interest rate compliance.

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

Interest rate risk can be presented as follows:

	Total	0-18 months	18 months – 3 years	3 – 5 years	5 – 10 years
Total	188,389	(59,542)	24,324	152,536	71,071
EUR	197,637	(53,016)	26,341	153,241	71,071
RSD	(9,248)	(6,526)	(2,017)	(705)	-

By changing the interest rate by 2.00%, the effect on the Company's revenues and expenditures would amount to RSD 188,389 thousand, which is less than the limit of 15% compared to equity, which is RSD 230,388 thousand. The percentage of limit use is 96.04% for change of -2%, and 81.77% for change of +2%.

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

Forms of risks that may be subject to monitoring are:

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

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

31 RISK MANAGEMENT (continued)

31.3 Market Risk (continued)

31.3.1 Interest Rate Risk (continued)

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

Sensitivity of net value of the AFS securities portfolio	Increase of 200bp	Decrease of 200bp
2021		
As of 31 December	(4,216)	5,056
Period average	(10,782)	13,404
Period maximum	(15,611)	21,890
Period minimum	(4,216)	5,056
2020		
As of 31 December	(22,769)	36,022
Period average	(26,010)	32,647
Period maximum	(35,719)	38,542
Period minimum	(22,759)	22,553

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, which was valid during 2021. The decision of the Management Board of the Company dated 28.12.2021 established the limit of open position up to EUR 1,000 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 2021, the Company monitored compliance with foreign exchange risk indicators, this indicator exceeded the defined limit for three days in 2021, because the days of posting of announced finance lease placements occurred on the following day (in 2020 - three 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 2021 amounted to RSD 65,948 thousand, while the foreign exchange risk indicator was 4.29% of equity, and as at 31 December 2020 it amounted to RSD 33,135 thousand, while the indicator of foreign currency risk amounted to 2.39% of the Company's capital.

31 RISK MANAGEMENT (continued)

31.3 Market Risk (continued)

31.3.2 Foreign currency risk (continued)

The following table shows the Company's exposure to foreign currency risk as at 31 December 2021:

	Carrying amount	RSD	EUR
ASSETS			
Cash and cash equivalents	171,874	171,848	26
Financial placements held with banks	2,157,445	1,099,089	1,058,356
Short-term receivables from finance lease activities	7,012,887	99,632	6,913,255
Intangible assets	23,268	23,268	-
Property, plant and equipment	18,184	17,558	625
Long-term receivables from finance lease activities	12,710,805	55,092	12,655,713
Deferred tax assets	3,030	3,030	-
Other assets	109,480	55,901	53,580
TOTAL ASSETS	22,206,973	1,525,418	20,681,555
EQUITY AND LIABILITIES			
Stake capital	960,374	960,374	-
Gains	163,010	163,010	-
Reserves	412,538	412,538	-
Long-term financial liabilities	16,518,008	(15,385)	16,533,393
Short-term financial liabilities	3,953,038	(10,474)	3,963,512
Reservations	8,480	8,480	-
Current tax liabilities	22,599	22,599	-
Other obligations	168,926	50,224	118,702
TOTAL EQUITY AND LIABILITIES	22,206,973	1,591,366	20,615,607
Net foreign currency position 31 December 2020	-	(65,948)	65,948

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

31 RISK MANAGEMENT (continued)

31.3 Market Risk (continued)

31.3.2 Foreign currency risk (continued)

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

	Carrying amount	RSD	EUR
ASSETS			
Cash and cash equivalents	2,508,871	157,267	2,351,604
Financial placements held with banks	1,796,406	961,587	834,819
Short-term receivables from finance lease activities	6,013,363	146,271	5,867,092
Intangible assets	21,790	21,790	-
Property, plant and equipment	28,514	12,446	16,068
Long-term receivables from finance lease activities	11,360,616	93,074	11,267,542
Deferred tax assets	3,786	3,786	-
Other assets	91,083	41,753	49,330
TOTAL ASSETS	21,824,429	1,437,974	20,386,455
EQUITY AND LIABILITIES			
Stake capital	960,374	960,374	-
Gains	106,679	106,679	-
Reserves	317,480	317,480	-
Long-term financial liabilities	15,380,657	(26,648)	15,407,305
Short-term financial liabilities	4,937,416	(17,050)	4,954,466
Reservations	12,521	12,521	-
Current tax liabilities	748	748	-
Other obligations	108,554	50,735	57,819
TOTAL EQUITY AND LIABILITIES	21,824,429	1,404,839	20,419,590
Net foreign currency position 31 December 2020	-	33.135	(33.135)

31 RISK MANAGEMENT (continued)

31.3 Market Risk (continued)

31.3.2 Foreign currency risk (continued)

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

Scenario	Effect on 2021 Statement of profit and loss	Effect on 2020 Statement of profit and loss
10% depreciation of RSD	6,595	3,313
20% depreciation of RSD	13,189	6,626

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 6,595 thousand.

Foreign exchange risk indicator in the event of the depreciation of the dinar exchange rate by 10% would be 4.72%, and in the case of the depreciation of the dinar exchange rate by 20% would be 5.15%.

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

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

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

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

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

31.4 Operational Risk

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

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

31 RISK MANAGEMENT (continued)

31.4 Operational Risk (continued)

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

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

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

During 2021 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 2021 there were five operational risk cases and they can be shown in the following table:

Type of operational risk	Number of cases	Potential damage in EUR
Other fraud	1	200
Errors in data entry or execution	1	705
Other events	1	150
Damage to customers or third parties	1	200
Errors in data entry or execution	1	-
Own IT systems and the like	1	-
Misuse of the subject of leasing	1	-
Inadequate business practice	5	1,045
Total	12	2,301

Type Other fraud refers to a case of attempted fraud by the lessee by providing false information on installment payments. The user claimed that he made the payments through exchange offices.

31 RISK MANAGEMENT (continued)

31.5 Fair Value of Financial Assets and Liabilities

After the potential fraudulent act was noticed, the financial leasing agreement was terminated, the leasing object was taken over by the Company and the receivables under the contract were collected by selling the leasing object.

Corrective activity for fraudulent actions of this type is that in the future, in cases when the user makes a payment through exchange offices or bank counters, it will not be treated as correct until it is recorded on the current account of the Company.

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

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

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

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

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

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

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

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

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

31 RISK MANAGEMENT (continued)

31.5 Fair Value of Financial Assets and Liabilities (continued)

The following table shows the value of financial instruments stated at fair value in the balance sheet of the Company as at 31 December 2021 and 2020, measured on the basis of different information in accordance with the hierarchies within the prescribed Policies for fair value:

2021	Level 1	Level 2	Level 3	Total Fair Value	Carrying value
Short-term financial assets					
Securities	-	735,371	-	735,371	735,371
Investment units	-	363,718	-	363,718	363,718
Total	-	1,099,089	-	1,099,089	1,099,089

2020	Level 1	Level 2	Level 3	Total Fair Value	Carrying value
Short-term financial assets					
Securities	-	750,702	-	750,702	750,702
Investment units	-	210,885	-	210,885	210,885
Total	-	961,587	-	961,587	961,587

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 2021 and 31 December 2020:

2021	Level 1	Level 2	Level 3	Total Fair Value	Carrying value
Cash	-	171,874		171,874	171,874
Financial placements held with banks	-	3,186,423	-	3,186,423	3,186,423
Receivables from finance lease activities	-	-	17,175,027	17,175,027	19,723,692
Total assets	-	3,343,690	17,175,027	20,518,717	20,717,669
Borrowings from banks and other financial institutions	-	18,968,439	-	18,968,439	20,471,046
Total liabilities	-	18,968,439	-	18,968,439	20,471,046

2020	Level 1	Level 2	Level 3	Total Fair Value	Carrying value
Cash	-	2,508,871		2,508,871	2,508,871
Financial placements held with banks	-	-	-	-	-
Receivables from finance lease activities	-	-	14,705,058	14,705,058	17,373,979
Total assets	-	176,388	14,746,091	14,881,446	15,061,600
Borrowings from banks and other financial institutions	-	19,320,748	-	19,320,748	20,318,073
Total liabilities	-	19,320,748	-	19,320,748	20,318,073

31 RISK MANAGEMENT (continued)

31.5 Fair Value of Financial Assets and Liabilities (continued)

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

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

32 CAPITAL MANAGEMENT

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

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

For the performance of finance lease transactions the object of which is an immovable asset, the pecuniary portion of the initial capital of the lessor cannot be lower than the dinar equivalent of EUR 5,000,000 at the official middle exchange rate as at the payment date. The Company has met threshold of EUR 5,000,000 of the initial capital of the lessor and financed immovable assets under finance lease agreements.

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

As at 31 December 2021 the Company's stake capital amounts to RSD 960,374 thousand (31 December 2020: RSD 960,374 thousand) and is significantly above the prescribed minimum. The calculation of capital adequacy made for the purposes of reporting to the Intesa Sanpaolo Group also shows that the equity is significantly above the expected minimum.

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

33 RECONCILIATION OF RECEIVABLES AND PAYABLES

In accordance with Article 22 of the Accounting Law, the Company performed the reconciliation procedure of receivables and payables with its debtors and creditors with the balance as of 31 December 2021.

Confirmations were sent to 3,467 clients lessees. During reconciliation, the clients disputed total receivables amounts in the amount of RSD 402 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 2021 the Company reconciled all liabilities with creditors.

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

34 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 2021.

Market disruption of components that are installed in vehicles had an impact on the volume of sales in 2021, and it is expected that this impact will remain in 2022. This is primarily due to slow delivery of microchips for the automotive industry, which led to disruptions in the work of car factories, which reduced the volume of production. Demand for new vehicles is constant and higher than current supply. Due to the slow delivery of vehicles, the Company did not realize part of the already agreed placements in 2021, primarily to leasing users who are engaged in vehicle rental, and in 2022 the slow realization of these placements is expected.

The activities of leasing users that were most affected by the Covid-19 epidemic were travel agencies, passenger transport, and organizers of sports and entertainment facilities. These were also the sectors that used the moratorium measures adopted by the NBS the most.

The Covid-19 epidemic did not have a significant impact on business during 2021, so no significant changes and impacts are expected in 2022 either.

Belgrade, 24 February 2022

Report prepared by		Legal Representative
Predrag Topalović	Intesa Leasing d.o.o. Beograd	Nebojša Janićijević

TRANSLATION

INTESA LEASING D.O.O. BEOGRAD

ANNUAL BUSINESS REPORT FOR 2021

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

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

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

1. DESCRIPTION OF BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE

1.1. BUSINESS ACTIVITIES

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

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

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

In accordance with the criteria of the Law on Accounting ("Official Gazette of RS", No. 62/2013), the Company is classified as a large legal entity for the preparation of financial statements for 2021.

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

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

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

In 2021, the Company has achieved:

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

1.2. Organizational Structure

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

There were no changes in the organizational structure during 2021.

The Company is comprised of:

- Departments,
- Offices, and
- Teams.

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

1.2 Organizational Structure (continued)

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

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

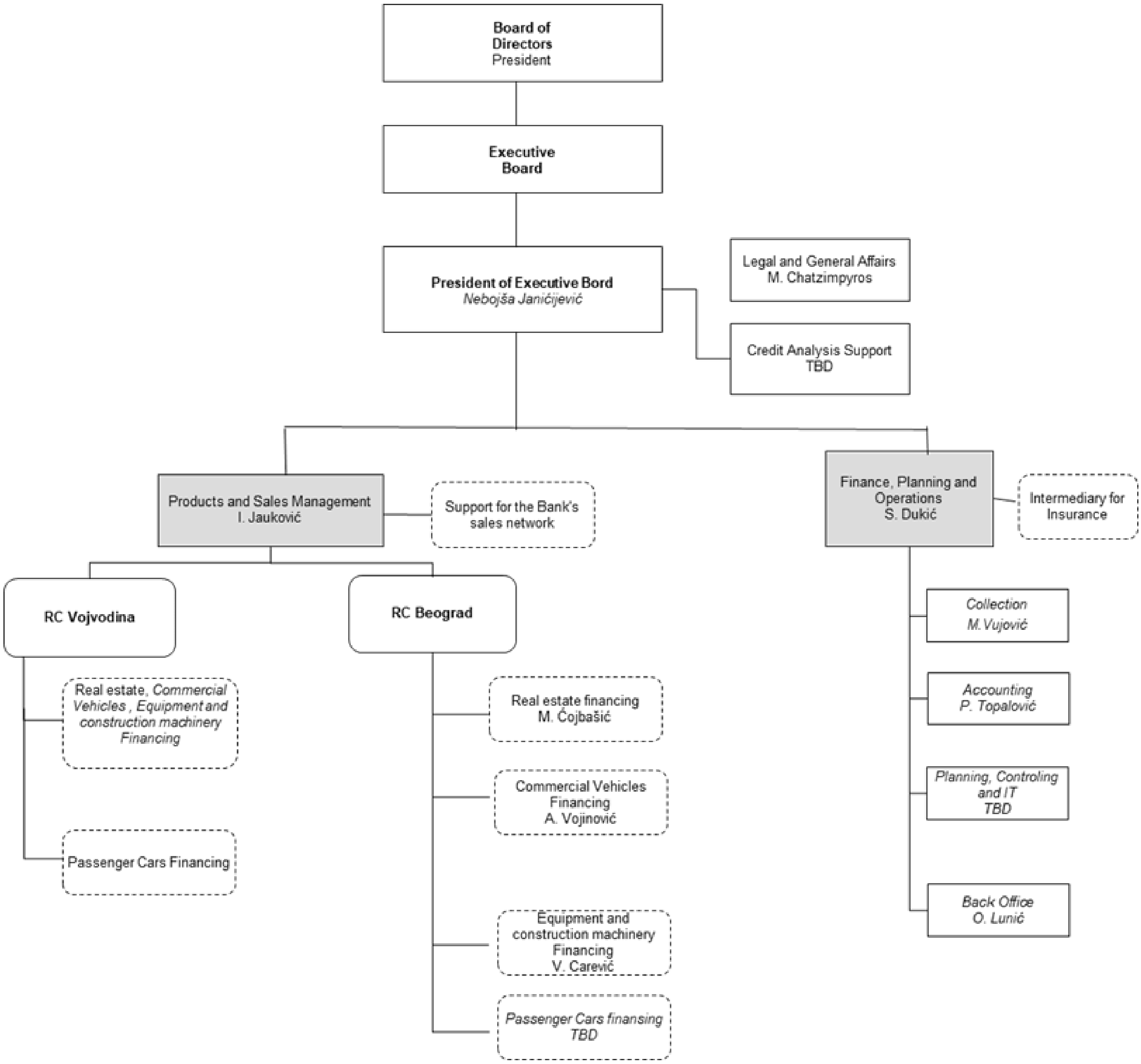
Other managing staff of the Company comprise:

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

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

1.2 Organizational Structure (continued)

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

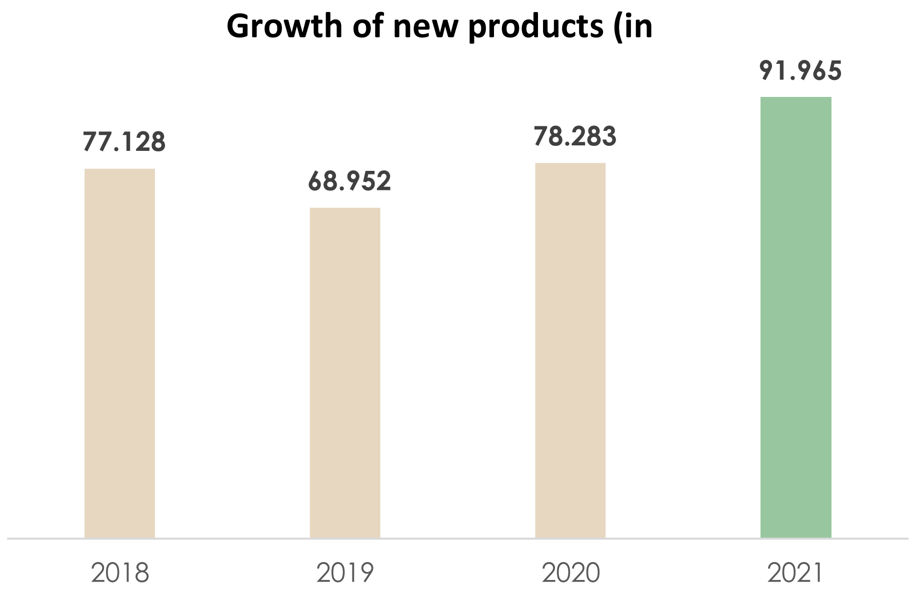


2. COMPANY'S OPERATIONS

2.1. Commercial activities

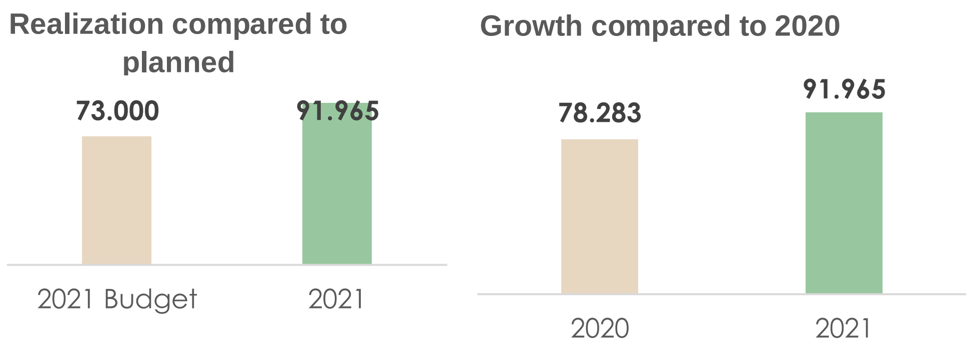
In a year full of challenges, in changed working conditions, while the Covid 19 pandemic does not subside, Intesa Leasing is making unstoppable progress and achieving the best result in the history of its business. During the observed period from 2018 to 2021, the Company recorded an increase in sales results. In relation to the extremely difficult 2020, when the Company opened significant sales results, in 2021 it achieved exceptional sales growth. The level of new placements realized in 2021 amounts to EUR 91,965 thousand, ie 2,461 new leasing contracts.

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



Compared to the previous year, the Company recorded a growth rate of new placements of 17.5% (EUR 13,682 thousand). The realized financed value of placements for 2021 amounted to EUR 91,965 thousand, which is 26% (EUR 18,965 thousand) significantly above the planned value for 2021 (EUR 73,000 thousand) and represents the highest level of placements in the history of the Company.

Figure 3. Comparison of the realization of new placements according to the plan for 2021 and 2020 (in millions of EUR)

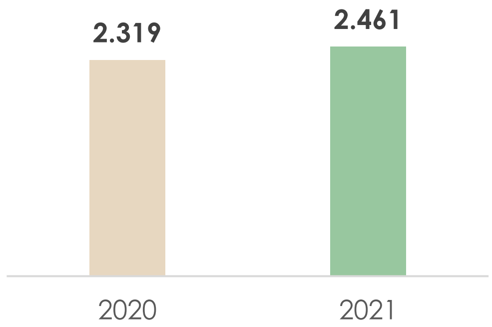


2. COMPANY'S OPERATIONS (continued)

2.1 Commercial activities (continued)

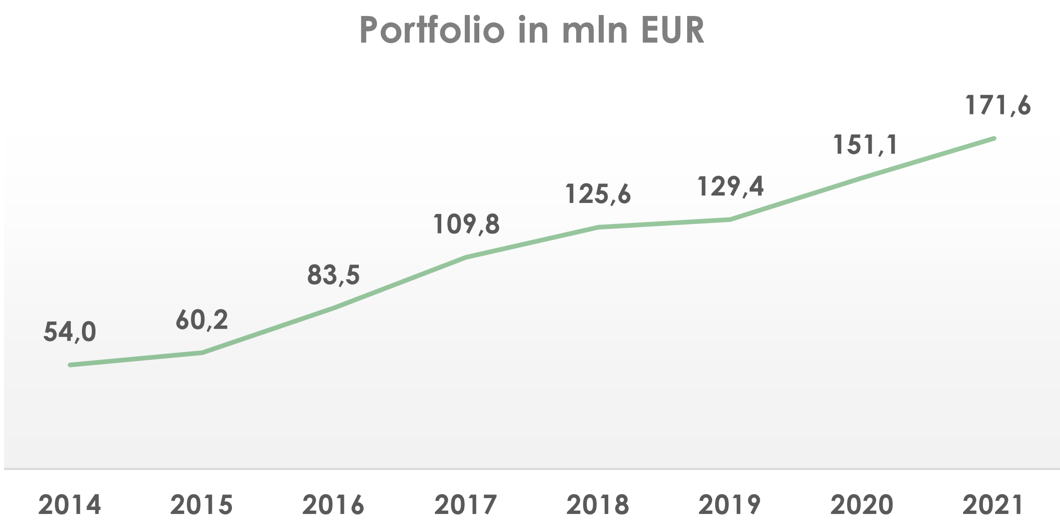
The total number of new contracts realized in 2021 is 2,461, which is an increase of 142 compared to 2020.

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



The company is recording continuous portfolio growth. In 2021, the Company achieved the highest level of placements since its existence, ie EUR 171.6 million, which is EUR 20.5 million higher than in 2020 (EUR 151.1 million).

Figure 5. Portfolio growth by years



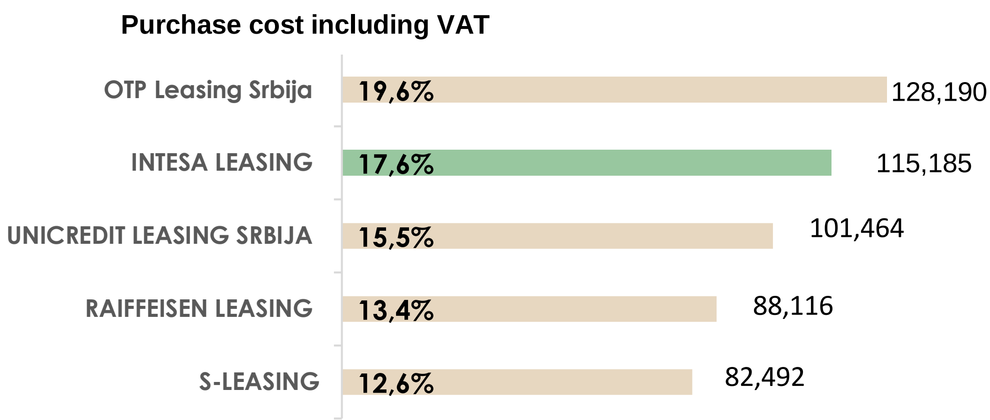
2. COMPANY'S OPERATIONS (continued)

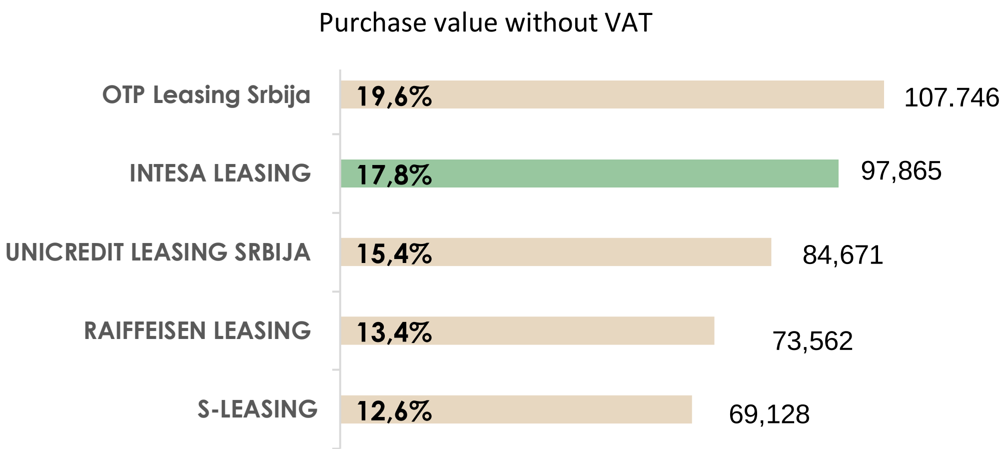
2.2. Market share

According to the Association of Leasing Companies of Serbia ("ALCS") for the fourth quarter of 2021, the Company took second place in the leasing market according to indicators of new placements: purchase values without VAT with a market share of 17.8%, purchase values with VAT om with a market share of 17.6% and financed values with a market share of 17.4%.

The following charts show the market share of the five largest leasing companies at the end of 2021 according to the criteria of new production: purchase values with VAT, purchase values without VAT and financed values. Values are shown in thousands of EUR..

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





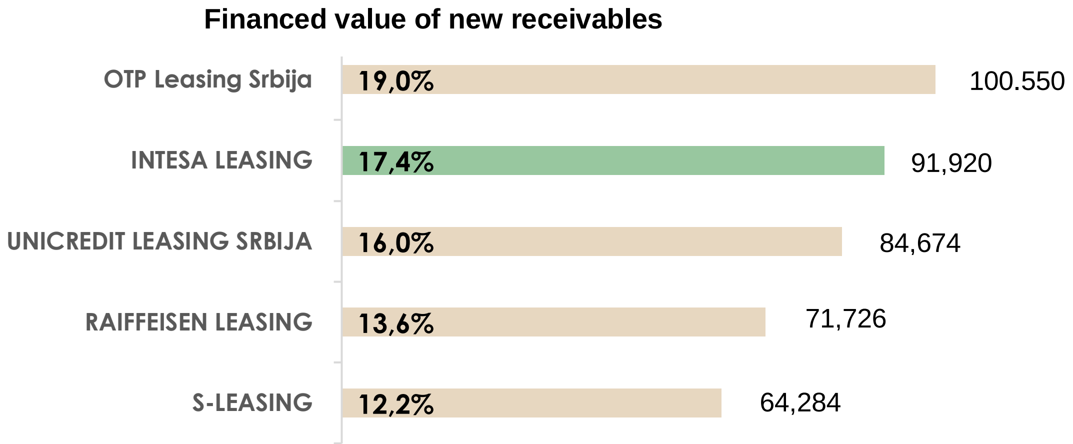
Compared to the five largest leasing companies, the Company achieved a stable second position in the market despite the Covid crisis. The leasing market in 2021 achieved significant growth in terms of new production, as much as 34.4% compared to 2020.

2. COMPANY'S OPERATIONS (continued)

2.2 Market share (continued)

According to the indicator of financed value, the Company took the second place with a share of 17.4% in the total realization of new placements on the leasing market at the end of 2021. The total value of new placements in the leasing market at the end of 2021 amounted to EUR 528.1 million, which is an increase of 34.4% compared to 2020.

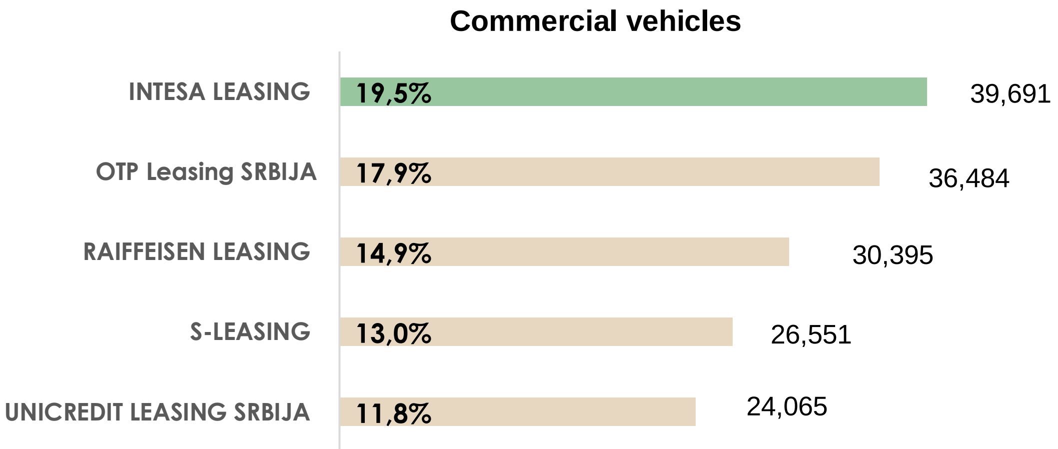
Figure 7. Market share of five largest leasing companies according to indicator of financed value of new receivables (in thousands EUR)



At the end of 2021, the company took the first place in the segment of commercial vehicles. In the equipment segment, the Company took third place, while in the passenger vehicle segment it took fourth place.

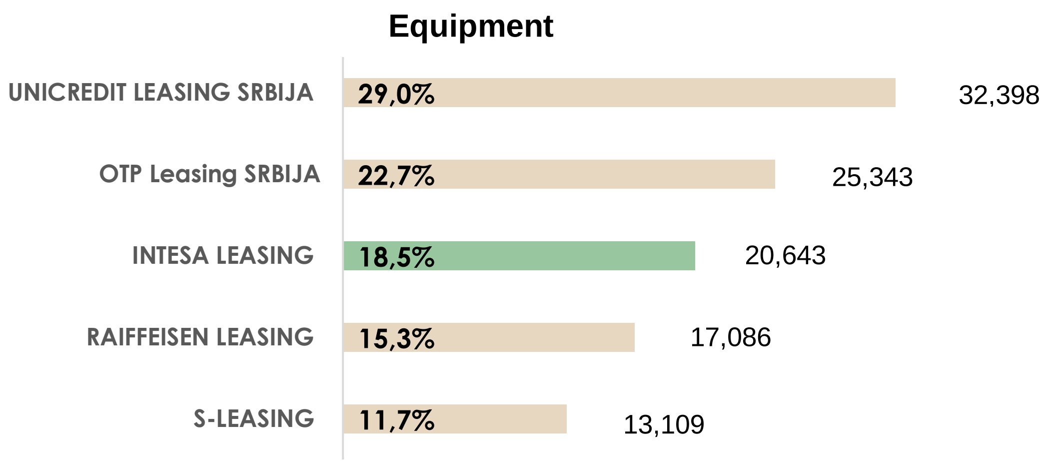
The following charts show the market share of the five largest leasing companies at the end of 2021 according to the criteria of new production by types of leasing products (in thousands of EUR):

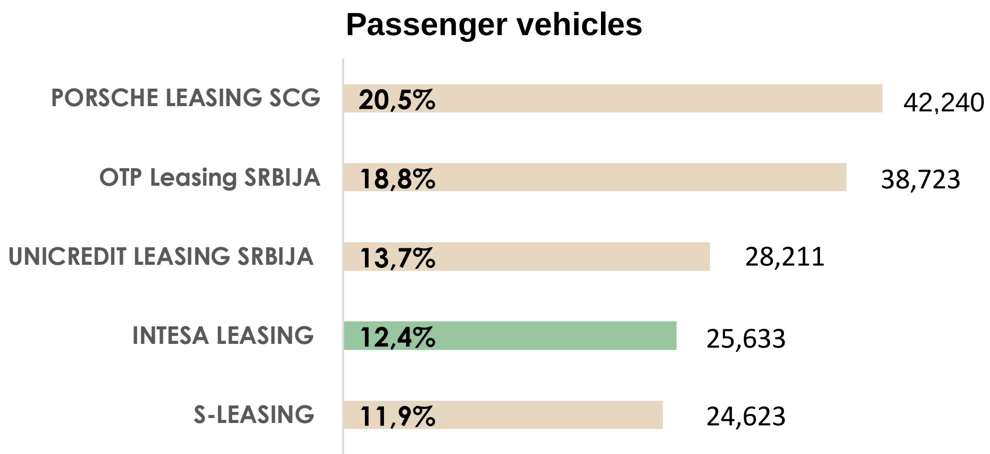
Figure 8. Market share of five largest leasing companies by type of equipment (in thousands of EUR)



2. COMPANY'S OPERATIONS (continued)

2.2 Market share (continued)





In 2021, the Company also made progress in market share by equipment groups. In the segment of commercial vehicles, the Company made progress from the second place in the second quarter of 2021 to the first place at the end of the year. In the equipment segment, the Company also made progress compared to the second quarter of 2021, when it took fifth place, while at the end of the year it reached third place.

In the segment of passenger vehicles, the Company took the fourth place at the end of 2021. The total financed value of real estate in 2021 was EUR 5.9 million.

The realized average contractual interest rate on new placements in EUR in 2021 amounted to 3.5% (3.1% in 2020), which is an increase compared to the previous year by 40 basis points.

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

2. COMPANY'S OPERATIONS (continued)

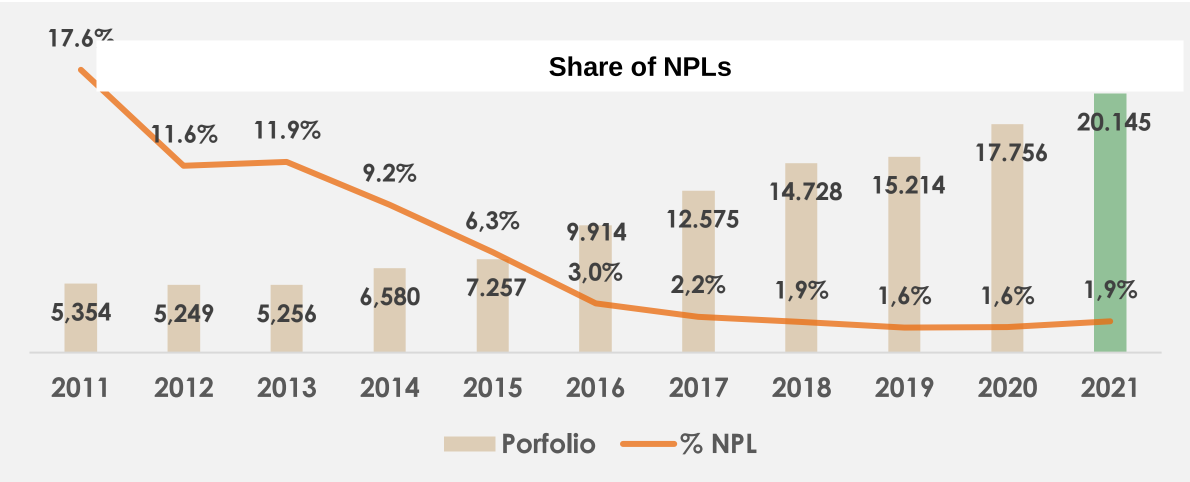
2.3. Financial position

At the end of 2021, the total balance sheet assets of the Company amounted to RSD 22,206,973 thousand. Compared to the previous year, when it amounted to RSD 21,824,429 thousand, an increase in the balance sheet total of 1.7% (RSD 383 thousand) was recorded.
The balance of placements at the end of 2021 amounted to RSD 19,723,692 thousand, which is above last year's level (RSD 17,373,979 thousand) by 11.91% (RSD 2,349,713 thousand).

The realized average interest rate on assets in 2021 was 2.98%, which is above last year's level (2.94%), while the deposit interest rate was 0.81%, which is lower than last year's level (0.99%). .
The company has significantly improved the quality of its portfolio over the years. In 2020, the level of problematic placements was reduced to the historically lowest level since the beginning of business, while in 2021 it increased slightly. The growth of the indicator was caused by the classification of the client "Revolution" as an NPL whose subject is real estate leasing. The solution to this problematic placement is planned for the first quarter of 2022.

Portfolio quality indicators at the end of 2021 are as follows:
• The percentage of problem placements in total placements (% of NPLs) is slightly growing and at the end of 2021 it was 1.9%, which is significantly lower than planned levels (2.4%). At the end of 2020, the NPL% was 1.6%;
• ratio of coverage of total placements with allowances of 1.78%, while in the previous year it was 1.89%; and
• The ratio of coverage of problem placements with value adjustments is 69.38%, and in the previous year it was 75.86%.

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



2. COMPANY'S OPERATIONS (continued)

2.4. Result of business activities

The realized profit of the Company at the end of 2021 amounted to RSD 163,010 thousand, which is above last year's level of profit (RSD 106,679 thousand) by RSD 56,331 thousand or 52.8% and above the budget 34.2%. The costs of provisions in 2021 are slightly higher than planned in the budget (RSD 1,039 thousand or 2%) primarily due to increased provisions for NPL clients.

Due to the Covid 19 pandemic, the Government of the Republic of Serbia has adopted measures to facilitate the repayment of debts, i.e. a moratorium. In 2020, there were 3 moratoriums. Moratoriums 1 and 2 were successfully implemented in full during 2020. Moratorium 3 was in force in the first part of 2021.

The company recorded a decline in operating costs, so the realized indicator Costs / revenues (Cost / Income ratio) for 2021 was at the level of 42.8% compared to the end of 2020 when it amounted to 49.4%. The realized Cost / Income ratio is lower than planned by 6.2%, ie lower than last year by 6.6%.
Compared to the end of 2020, the number of employees has increased. As of December 31, 2021, the Company had 44 employees.

2.5. Internal audit

During 2021, two internal audits were conducted in accordance with the Company's Internal Audit Plan in the following organizational parts of the Company: Legal and General Affairs Department, Credit Analysis Department, Product Management and Sales Department and Finance Planning and Operations Department. Audits of the information system and the risk segment and their management were conducted.
The aim of the audit was to assess the existence and adequacy of the following processes:
- Risk Preference Framework (RAF limits);
- Monitoring of liquidity risk indicators;
- Approval of placements (Request and proposal, Approval and Realization);
- Management of collateral (Management and monitoring of guarantees - mortgages);
- Performing placements - Management and monitoring (Annual and system audit of clients;
- Proactive credit management (hereinafter: PCM));
- Organizing the powers of corporate bodies and internal boards (management bodies and internal boards of the Company, Code of Ethics, Business Code, Internal Alarm);
- Financial Reporting Management (Taxes).

Residual risk was assessed as "medium", because the internal control system was assessed as "requiring improvement".
The main findings relate to the need to:
• Update internal regulations that define the management of individual risks in accordance with the internal regulations of the Parent Company;
• Compliance analysis and updating of documents related to the Company's corporate governance.
• Adoption of an internal act that comprehensively defines the PCM process (competencies and responsibilities of employees, strategies applied to clients, monitoring the implementation of strategies, the period of retaining the client in PCM status after settling due obligations, etc.).
The remaining unresolved Internal Audit recommendations will be implemented according to the defined action plans in the first half of 2022.

2. COMPANY'S OPERATIONS (continued)

2.6. Tax Audit

During 2021, the Company had one field control by the Tax Administration of Serbia. The tax control was completed in October 2021. The subject of tax control was the profit tax, tax balance, restrictive interest and interest expenses "out of reach" within the transfer prices. No irregularities were found in the work of the Company. So far, the Company has had two tax controls on the calculation of value added tax. The tax control conducted in 2021 is the first profit tax control conducted by the Center for Large Taxpayers.

3. ENVIRONMENTAL PROTECTION

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

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

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

4. SUBSEQUENT EVENTS

There were no significant events after the date of the reporting period that would require corrections or disclosures in the annual report on the Company's operations for 2021.

5. PLANNED FUTURE DEVELOPMENT

The Company has adopted a Strategic Plan for the period 2022-2025. year in which the most important strategic directions of development are:
– to be the most successful leasing company in the Serbian leasing market operating in a profitable and sustainable way;

- increase in the share of passenger car financing in total new production;
- introduction of a new product "Operating Leasing";
- more favorable credit lines and achieving lower financing costs, which leads to a better position in approving new placements and opens the possibility of further improving the quality of the portfolio;
- obtaining new favorable credit lines from international financial institutions and funds, which is important for achieving strategic goals;
- participation in state subsidy programs for equipment and construction machinery, Environmental Friendly Vehicles (electric vehicles, hybrids, etc.) and agricultural equipment;
- New cost of ESG in the period 2023 - 2025 as a strategic orientation of the Group;
- increase business success and reduce the Cost / Income ratio, through an increase in operating income and a steady increase in business efficiency and a reduction in administrative and overhead costs; and
- improve operational efficiency and improve and automate business processes.

6. RESEARCH AND DEVELOPMENT ACTIVITIES

Development activities within the Company are primarily aimed at improving business processes and further development of Business Process Management (BPM).

The following new tools have been developed and are being implemented within the NOVA system:

• Sending outgoing invoices and other printouts to mail - In earlier periods, sending part of invoices to mail, such as invoices for default interest and invoices for intercalary interest, was developed. . During 2021, complete automation of sending outgoing invoices to clients' emails was performed, such as invoices for reminders, invoices for the fee for entry in the leasing register, invoices for pre-invoice costs, statements on changes in the tax base, book debits, etc.

• Taxi subsidy is one of the new programs of the Government of the Republic of Serbia where the state subsidizes part of the value of the purchase of vehicles for leasing. The company had to create a special type of contract in order to comply with the conditions adopted by the Government.

• Import of accruals in the General Ledger - Automation of the process of entering accruals in the General Ledger has been performed. Instead of the previous manual entry, which required several hours of employee engagement during the month, the automated process takes place in half an hour, which significantly contributed to saving time.

Within the system, the development of new tools has begun:

• Pricing Calculator means fully automated bidding for interested customers with all conditions and approved discounts. The process will define the conditions that will be offered to the client depending on the rating, potential and subject of leasing. Approved discounts are currently manually defined and manually recorded.

• E-invoices are the process of automating the sending and receiving of all invoices via the e-Invoices portal. The development of the process was initiated and conditioned by the adoption of the new Law on Electronic Invoicing. In the first phase of the process, the process of sending outbound invoices to public companies is being developed

• APR Web Service involves the development of a process that will enable electronic registration and deregistration of APR contracts. The process is designed to fill an electronic application with existing data from the system. This process will significantly contribute to savings in time and work due to the fact that the entire process of applying and deregistering contracts in APR takes place manually, starting from filling out applications, submitting documents to personally submitting documents in paper form at the APR counter.

• Digital Signatures is a continuation and upgrade of the process that has been developed and is widely used internally in signing credit committee decisions. The goal of the development of this process is to enable digital signing of the entire contract documentation, which would significantly speed up the process of registering and deregistering contracts in the leasing register at the Business Registers Agency. The goal is to enable a simpler and faster flow of documentation digitally between Intesa Leasing and stakeholders.

7. PURCHASE OF TREASURY STAKES

The Company did not purchase any of its treasury stakes during 2021.

8. BRANCHES

The Company had one registered branch in 2021 in Novi Sad.

9. FINANCIAL INSTRUMENTS

During 2020, the Company used securities, i.e. long-term government bonds of the Republic of Serbia. The market value of these financial instruments on 31 December 2021 amounted to RSD 735,731 thousand. In 2021 the Company invested in the investment fund of its related party Intesa Invest. The market value of these investment units on 31 December 2021 amounted to RSD 363,718 thousand.

10. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

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

10. FINANCIAL RISK MANAGEMENT (Continued)

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

On December 28, 2021, the Board of Directors adopted the Decision on Adoption of Limits defining the Company's Risk Limits (RAF Limits) in order to further harmonize with the rules for managing the risks of the parent bank (Banca Intesa ad Beograd) in accordance with the regulations, standards and rules of the profession. Limits of capital adequacy, liquidity, exposure to operational risk (so-called "top of the house limits") and specific limits of credit risk/concentration risk, foreign exchange and interest rate risk have been established.

/i/ Credit risk

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

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

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

	2021	Participation in the total net receivables	2020	Participation in the total net receivables
Performing	19.667.268	99,39%	17,474,728	98,42%
Past Due	64.788	0,33%	16,380	0,09%
Unlikely to Pay	26.210	0,13%	27,491	0,15%
Doubtful	28.791	0,15%	237,455	1,34%
Total	**19.787.057**	**100.00%**	**17,756,054**	**100.00%**

As can be seen from the previous table, for both observed years, the share of net problematic placements is at a low level - a total of 0.61% in 2021 and 1.58% in 2020.

By continuously monitoring this risk, the company managed to reduce the share of bad loans in 2021 compared to previous years. Credit risk has a satisfactory level in relation to the set limits.

/ii/ Liquidity risk

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

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

10. FINANCIAL RISK MANAGEMENT (Continued)

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

	2021			2020		
	Assets	Liabilities and equity	Cumulative gap	Assets	Liabilities and equity	Cumulative gap
Gross exposure of up to 30 days	1.783.339	415.307	1.368.032	3,413,824	456,529	2,957,295
Gross exposure of 1 to 3 months	1.379.023	622.835	2.124.220	1,138,708	889,981	3,206,022
Gross exposure of 3 to 6 months	1.764.439	1.119.951	2.768.708	1,458,138	1,303,874	3,360,286
Gross exposure of 6 to 12 months	4.270.331	1.951.247	5.087.792	2,855,498	7,386,282	(1,170,498)
Gross exposure of 12 to 18 months	2.886.106	1.487.096	6.486.802	3,090,742	2,303,781	(383,537)
Gross exposure of 18 months to 5 years	9.484.082	13.421.264	2.549.620	9,455,684	7,939,453	1,132,694
Gross exposure of over 5 years	601.301	1.636.517	1.514.404	523,249	194,786	1,461,157
Gross amount without a defined maturity	607.803	1.552.756	-	424,205	1,349,741	-
Gross exposure - total	**22.776.424**	**22.206.973**	**569.451**	**22,360,048**	**21,824,427**	**535,621**

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

/iii/ Interest rate risk

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

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

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

The calculated indicator Repricing gap shows that in the event of a change in the interest rate of 2.00%, the effect on the Company's revenues in 2021 would be RSD 188,389 thousand, which is within the limit set by the Interest Rate Risk Management Procedure.

10. FINANCIAL RISK MANAGEMENT (Continued)

/iv/ Foreign currency risk

Foreign currency risk is the risk of adverse effects on the Company's financial result and equity due to changes in foreign exchange rates.
The foreign currency risk protection principle is to achieve and maintain the foreign currency assets at least in the amount equal to foreign currency liabilities. This ratio is also reconciled from the aspects of maturities of foreign currency receivables and foreign currency liabilities.
As at 31 December 2021, the Company had an open position of RSD 65,948 thousand, which is 4.29% of the Company's capital. Foreign exchange risk is within the established limit of EUR 1,000 thousand calculated at the middle exchange rate of the National Bank of Serbia on the reporting date. The open position limit of EUR 800 thousand was valid during 2021. The decision of the Management Board of the Company dated 28.12.2021 established the limit of open position up to EUR 1,000 thousand.

/v/ Operational Risk

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

Operational risks comprise:

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

During 2021, the record of operational risks was conducted through the "BIBOp" application. Recording of observed events that cause operational risks of the Company is carried out by the coordinators for monitoring operational risks.
Data entry is done in real time, which means that the event can be entered immediately after its observation. Coordinators enter the event no later than 48 hours from the date of its observation. The event can be saved in the draft version and during this period the coordinators have access to the document. When all known event data is entered into the application, it becomes visible to the verifier who has the task of rechecking the event data and verifying it. The event should also be verified within 48 hours at the latest

10. FINANCIAL RISK MANAGEMENT (Continued)

/v/ Operational Risk (continued)

During 2020, twelve cases of operational risk occurred and they can be shown in the following table:

Type of operational risk	Number of cases	Potential damage in EUR
Other fraud	1	200
Errors in the entering data or executing	1	705
Other events	1	150
Damage sustained by clients or third parties	1	200
Errors in the entering data or executing	1	-
Own IT systems and other	1	-
Malicious leasing case	1	-
Inappropriate business practices	5	1.045
Total	12	2.301

Type Other fraud refers to a case of attempted fraud by the lessee by providing false information on installment payments. The user claimed that he made the payments through exchange offices.

After the potential fraudulent act was noticed, the financial leasing agreement was terminated, the leasing object was taken over by the Company and the receivables under the contract were collected by selling the leasing object.

Corrective activity for fraudulent actions of this type is that in the future, in cases when the user makes a payment through exchange offices or bank counters, it will not be treated as correct until it is recorded on the current account of the Company.
The overall assessment of the Company's exposure to risks for 2021 indicates that all risk indicators are within the established limits and as such are very effective in managing the Company, as evidenced by the overall achieved business results of the Company.

Belgrade, 24 February 2022

Report prepared by

Dragana Radivojevic

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

Legal Representative

Nebojša Janićijević

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