ERB LEASING a.d. BELGRADE - IN LIQUIDATION

Financial Statements as of and for the Year Ended 31 December 2018

and

Independent Auditor's Report

CONTENTS

This is an English translation of Independent Auditor's Report and 2018 Financial Statements originally issued in the Serbian language

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ERB LEASING a.d. BELGRADE - IN LIQUIDATION

Report on Financial Statements

We have audited the accompanying financial statements of Joint stock company for finance lease "ERB Leasing" a.d. Belgrade – in liquidation (hereinafter "the Company"), which comprise the balance sheet as of 31 December 2018, and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting regulations prevailing in the Republic of Serbia and the basis of preparation of the financial statements disclosed in Note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Law on Auditing ("RS Official Gazette", no. 62/2013 and 30/2018) and Standards on Auditing applicable in the Republic of Serbia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with the accounting regulations prevailing in the Republic of Serbia and the basis of preparation of the financial statements disclosed in Note 2 to the financial statements.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ERB LEASING a.d. BELGRADE - IN LIQUIDATION (Continued)

Report on Financial Statements (Continued)

Emphasis of Matter

We draw attention to Note 2 to the financial statements, which describes the basis of preparation of the accompanying financial statements. On 23 June 2017, the Shareholders' Assembly of the Company passed the Decision on termination of its operations and initiation of liquidation procedure pursuant to the provisions of the Law on Companies ("RS Official Gazette", no. 36/2011, 99/2011, 83/2014, 5/2015, 44/2018 and 95/2018) and Law on Bankruptcy and Liquidation of Banks and Insurance Companies ("RS Official Gazette", no. 14/2015 and 44/2018). Subsequent to receiving the National Bank of Serbia's approval for initiating the procedure of voluntary liquidation, on 29 August 2017 the Company registered the Notification on the liquidation procedure initiation with the Serbian Business Registers Agency under no. BD72253/2017. The liquidation procedure is still underway. Consequently, these financial statements have been prepared on a gone concern basis. Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

Management of the Company is responsible for the preparation and fair presentation of the accompanying annual business report in accordance with the requirements of the Law on Accounting ("RS Official Gazette", no. 62/2013 and 30/2018). Pursuant to the Law on Audit ("RS Official Gazette", no. 62/2013 and 30/2018), our responsibility is to express an opinion on the consistency of the Company's annual business report for the year ended 31 December 2018 with the audited financial statements for the same year. Our procedures in this regard were performed in accordance with the applicable Standard on Auditing 720 "The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements", and are only limited to the assessment of the consistency of financial information disclosed in the annual business report with the audited financial statements.

In our opinion, financial information disclosed in the Company's annual business report for the year ended 31 December 2018 is consistent, in all material respects, with the audited financial statements of the Company for the year ended 31 December 2018.

Belgrade, 17 April 2019

Ksenija Ristic Kostic
Certified Auditor

Društvo za reviziju BDO d.o.o. Beograd

INCOME STATEMENT
For the Year Ended 31 December 2018
In RSD thousand

	Note	2018	2017
OPERATING INCOME AND EXPENSES			
Interest income	3.1, 5	211	2,217
Interest expenses	3.1, 6	(43)	(1,497)
Net interest income		**168**	**720**
Fee and commission income	3.1, 7	32	541
Fee and commission expenses	8	(27)	(248)
Net fees and commission income		**5**	**293**
Net foreign exchange losses and effects of foreign currency clause	3.3, 9	(515)	(12,748)
Other operating income	10	4,226	3,893
Net impairment gains from finance lease activities	11	-	22,553
Net impairment losses from repossessed assets	12	-	(2,372)
Total operating revenues		**3,884**	**12,339**
Salaries and other personnel costs	3.15, 13	(8,857)	(13,962)
Depreciation and amortization costs		(218)	(216)
Other expenses	14	(9,354)	(36,351)
LOSS BEFORE TAX		**(14,545)**	**(38,190)**
INCOME TAXES			
Current tax expense	3.13, 15	-	(8,056)
Deferred tax income	3.13, 15	-	(3,246)
LOSS FOR THE YEAR		**(14,545)**	**(49,492)**

The notes on pages 8 to 41
are an integral part of these financial statements.

Vladan Miljanovic

Legal Representative

ERB Leasing A.D. U LIKVIDACIJI 1 Beograd

BALANCE SHEET
As of 31 December 2018
In RSD thousand

	Note	2018	2017
ASSETS			
Cash and cash equivalents	3.10, 16	73,681	159,955
Short-term financial placements	17	23,639	23,695
Receivables from financial lease activities	3.6, 3.7, 18	888	2,161
Repossessed assets and advances	3.8, 19	-	2,469
Equipment	3.5	600	818
Receivables for overpaid income tax	3.13	422	422
Other assets	20	19,622	18,715
TOTAL ASSETS		**118,852**	**208,235**
EQUITY AND LIABILITIES			
Liabilities			
Borrowings	3.11, 21	-	73,679
Provisions	3.14, 22	2,841	3,561
Other liabilities	3.12, 23	2,896	3,337
		5,737	**80,577**
Equity			
Share capital	24	118,200	118,200
Retained earnings		58,950	58,950
Loss for the year		(64,035)	(49,492)
		113,115	**127,658**
TOTAL EQUITY AND LIABILITIES		**118,852**	**208,235**

The notes on pages 8 to 41
are an integral part of these financial statements.

Vladan Miljanovic

Legal Representative

ERB Leasing A.D. ERB Leasing U LIKVIDACIJI 1 Beograd

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2018
In RSD thousand

	Share capital	Retained earnings	Total
Balance as of 1 January 2017	**80,200**	**58,950**	**139,150**
Share capital increase	38,000	-	38,000
Loss for the year	-	(49,492)	(49,492)
Balance as of 31 December 2017	**118,200**	**9,458**	**127,658**
Loss for the year	-	(14,545)	(14,545)
Other movements	-	2	2
Balance as of 31 December 2018	**118,200**	**(5,085)**	**113,115**

The notes on pages 8 to 41
are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended 31 December 2018
In RSD thousand

	2018	2017
Loss for the year	**(14,545)**	**(49,492)**
Other comprehensive income	**-**	**-**
Total comprehensive loss for the year	**(14,545)**	**(49,492)**

The notes on pages 8 to 41
are an integral part of these financial statements.

STATEMENT OF CASH FLOW
For the Year Ended 31 December 2018
In RSD thousand

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	**6,399**	**83,985**
Receipts from finance lease placements	1,320	75,169
Receipts from rent and sales and other advances received	858	7,375
Other receipts from operations	4,221	1,441
Cash outflow from operating activities	**(18,473)**	**(49,663)**
Other payments to suppliers and advances paid	(19)	(22)
Payments for salaries and other personnel costs	(9,288)	(11,370)
Income tax paid	-	(733)
Other public duties paid	(217)	(199)
Other outflows from operations	(8,949)	(37,339)
Net cash flows (used in)/from operating activities	**(12,074)**	**34,322**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	**2**	**2**
Interests receipts from term deposits	2	2
Cash outflow from investing activities	**-**	**(24,840)**
Other financial placements (net outflows)	-	(24,840)
Net cash flows from/(used in) investing activities	**2**	**(24,838)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflow from financing activities	**-**	**38,000**
Other inflows from financing activities		38,000
Cash outflow from financing activities	**(74,203)**	**(11,615)**
Proceeds from long-term and short-term borrowings (net outflows)	(74,203)	(11,615)
Net cash flows (used in)/from financing activities	**(74,203)**	**26,385**
NET (DECREASE)/INCREASE/IN CASH AND CASH EQUIVALENTS	**(86,275)**	**35,869**
Cash and cash equivalents, beginning of the year	159,956	124,087
CASH AND CASH EQUIVALENTS, END OF THE YEAR (Note 16)	**73,681**	**159,956**

The notes on pages 8 to 41
are an integral part of these financial statements.

1. CORPORATE INFORMATION

"ERB Leasing" a.d. Belgrade – in liquidation, is the joint stock company for finance lease (hereinafter: the "Company"). The Company was inscribed in the Serbian Business Registers Agency on 17 June 2006 under the number BD 121751/2006 and the name EFG Leasing a.d. Belgrade.

Pursuant to the Decision of the Serbian Business Registers Agency number 156311/2013 dated 13 December 2013 Company changed legal name to ERB Leasing a.d. Belgrade.

The Company is registered in the Republic of Serbia for finance lease activities (code of activity / 6491) and it operates in accordance with the Law on Finance Lease.

On 29 August 2017 the Company registered the Notification on the liquidation procedure initiation with the Serbian Business Registers Agency under no. BD72253/2017 and changed the name to ERB leasing ad Belgrade – in liquidation.

The Company is founded by Eurobank a.d. Belgrade and Eurobank Ergasias S.A. Athens, Greece. Pursuant to the Decision of the Serbian Business Registers Agency number 134291/2007 dated 8 October 2007 a new shareholder - ERB New Europe Holding B.V. Amsterdam, the Netherlands, was registered. The new shareholder acquired a part of the Company's shares after the III issue of shares.

As of 31 December 2018, the Company is domiciled in Belgrade, 10, Vuka Karadzica Street.

As of 31 December 2018, the Company had 2 employees (31 December 2017: 4 employees).

The Company's tax identification number is 104466014. Its registration number is 20170859**.**

2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of the Financial Statements

The Company has prepared the accompanying financial statements in accordance with the requirements of the Decision on the Chart of Accounts and Contents of the Accounts in the Chart of Accounts for Financial Lease Companies ("Official Gazette of the Republic of Serbia", no. 87/2014) and the Decision on the Content and Form of the Financial Statements for Financial Lease Companies ("Official Gazette of the Republic of Serbia", no. 87/2014 and 135/2014).

The above decisions governing the presentation of the financial statements have priority in applying in relation to the requirements that are defined in this respect by IFRSs published by the Ministry of Finance.

Considering the aforementioned derogations, the accompanying financial statements cannot be considered financial statements prepared in accordance with IFRS.

The preparation of financial statements in accordance with the Accounting Law of the Republic of Serbia requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the application of accounting policies. The areas that require a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.17.

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

2.2. Going Concern Principle

(a) Position of the Group

Greece's real GDP grew by 1.9% in 2018 from 1.5% in 2017, according to the Hellenic Statistical Authority's (ELSTAT) first estimate, while the real GDP growth consensus forecast for 2019 stands at 1.9% (compared to an official target of 2.5%). The unemployment rate in December 2018 was at 18.0%, based on the Hellenic Statistical Authority's (ELSTAT) data (31 December 2017: 20.8%). On the fiscal front, Greece's primary balance is expected to register a surplus of 4.0% of GDP in 2018 according to 2019 Budget, (2017: 3.9% of GDP, according to ELSTAT data) while the respective forecast for 2019 is expected at 3.6% of GDP.

In August 2018, Greece concluded successfully the third economic adjustment program (TEAP) and has entered into the Enhanced Post Program Surveillance (EPPS) under EU Regulation 472/2013, which foresees quarterly reviews by the competent committees of the institutions (EC/ECB/ESM/IMF). The post program surveillance's main purpose is to safeguard financial stability, and continue the process of implementation of structural reforms aiming, among others, to boost domestic growth, jobs creation and to modernize the public sector. The first and second quarterly review under the EPPS were completed at the end of November 2018 and early March 2019, respectively. Delays were observed in the implementation of the structural reforms initially planned for the end of 2018 including, among others, the legal framework of the NPE resolution tools and in particular the household insolvency law. As a result, the European Commission has postponed the release of the first set of policy-contingent debt measures of € 970 million for early April 2019 conditional on the progress of the pending reform items. The Greek Government has built up a cash buffer of € 26.5 billion until the end of September 2018, out of the European Stability Mechanism (ESM) loan disbursements, GGBs issuances and other sources, in order to facilitate the country's access to the international markets. This buffer suffices for covering the gross financial needs for two years after the end of the program or four years assuming that the current stock of treasury bills will be rolled over. On the back of this environment, Greek sovereign demonstrated market access as evidenced by the successful issuance of a 5-year bond of € 2.5 billion at a yield of 3.6% on 29 January 2019 and a 10-year reference bond of € 2.5 billion at a yield of 3.9% on 6 March 2019.

The decisive implementation of the reforms agreed in the context both of the TEAP and the EPPS, the implementation of medium term debt relief measures in accordance with 21 June 2018 Eurogroup decisions, the mobilization of European Union funding to support domestic investment and job creation, the attraction of foreign and domestic capital and the adoption of an extrovert economic development model will improve the confidence in the prospects of the Greek economy and further stabilization of the domestic economic environment.

The main risks and uncertainties stemming from the macroeconomic environment are associated with (a) the adherence to established reforms and the possible delays in the implementation of the reforms' agenda in order to meet the EPPS targets and milestones, (b) the impact on the level of economic activity and on the attraction of direct investments from the fiscal and social security-related measures agreed under the reviews of the TEAP, (c) the ability to attract new investments in the country, (d) the timing of a full lift of restrictions in the free movement of capital abroad and the respective impact on the level of economic activity, (e) the possible slow pace of deposits inflows and/or possible delays in the effective management of non-performing exposures (NPEs) as a result of the macroeconomic conditions in Greece and (f) the geopolitical conditions in the near or in broader region and the external shocks from a slowdown in the regional and/or global economy.

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

2.2. Going Concern Principle (Continued)

(a) Position of the Group (Continued)

The Group monitors closely the developments in the Greek macroeconomic environment taking into account its direct and indirect exposure to sovereign risk.

In 2018, the expectations for a further improvement of the macroeconomic environment in Greece has enhanced Greece's credibility towards the international markets, improved the domestic economic sentiment and facilitated the return of deposits. Moreover, the restrictions in the free movement of capital within the country have been lifted, while those applied on the transfer of funds abroad have been further relaxed. The prompt implementation of the post-program period's reforms scheme will help further reinstating depositors' confidence, accelerate the access to the markets for debt issuance and positively influence the financing of the economy.

On 5 May 2018, the ECB announced the results of the Stress Test (ST) for four Greek systemic banks, including Eurobank. Based on feedback received by the Single Supervisory Mechanism (SSM), the ST outcome pointed to no capital shortfall and no capital plan needed for the Bank as a result of the exercise.

The Group's Common Equity Tier 1 (CET1) ratio stood at 14.2% at 31 December 2018, and the net profit attributable to shareholders amounted to € 91 million (€ 200 million net profit from continuing operations before € 44 million restructuring costs, after tax) for the year ended 31 December 2018.

Going forward, the prime target is the successful execution of the Bank's transformation plan consisting of a) the completion of the merger with Grivalia by May 2019 that will enhance Eurobank's capital position and its earning capacity, b) the acceleration of the NPE reduction plan through a large scale securitization of approximately €7 billion, the entry of a strategic investor into the capital of Financial Planning Services S.A. ("FPS"), the licensed 100%-owned loan servicer of Eurobank and other initiatives leading the Group's NPE ratio at 16% in 2019 and a single digit by 2021 and c) the achievement of a substantially lower cost of risk as of 2020, which is expected to drive strong sustainable earnings per share (EPS).

(b) Position of the Company

On 23rd June 2017 the Company's shareholder Assembly passed the Decision on the termination of its operations and initiation of the liquidation procedure pursuant to the provisions of the Law on Companies.

After obtaining a consent on the opening of the voluntary liquidation by the National Bank of Serbia, the Company registered Decision on the entering in the liquidation procedure on 29th August 2017 within the Serbian Business Registers Agency under the number BD 72253/2017

Consequently, during preparation of the accompanying annual financial statements for the year 2018, the Company's management is aware of material uncertainties related to the ability of the Company to continue to operate permanently and thus assesses that these financial statements are compiled based on gone- concern principle.

The Company is not considered as a company that operates on a going concern basis. The management considers that it has sufficient liquidity to complete the liquidation proceedings.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Revenue Recognition

Revenue includes the fair value of the received amount or the fair value of receivables arising from sale of goods and services in the Company's ordinary course of business. Revenue is recognized without VAT, return of the goods, rebate and discounts.

The Company recognizes revenue when the amount of the revenue can be reliably measured, when it is likely the Company will have future economic benefit and when particular criteria for every activity of the Company, as stated in the text bellow, are met.

The amount of the revenue is not considered reliably measurable until all potential liabilities arising from the sale are resolved. The Company bases its estimates on the previous results taking into consideration the type of the buyer, the type of the transaction and specific characteristics of each transaction.

Income and expenses from services are recognized on the accrual basis when services are provided.

The recognition of interest income is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

3.2. Borrowing Costs

Borrowing costs are recognized as an expense in the period in which they are incurred (Note 6).

3.3 Foreign Currency Translation

Transactions occurred in foreign currencies are translated into RSD at official exchange rates, as determined at the Interbank Market, at the date of each transaction.

Assets and liabilities denominated in foreign currencies are translated into RSD at the official middle exchange rates prevailing at interbank market at the balance sheet date.

Indexed receivables from finance lease are translated at contracted rate, which is by the Company's policy selling rate of the National Bank of Serbia.

Foreign exchange gains or losses arising upon foreign currency transactions and the translation of assets, liabilities and transactions are credited or debited as appropriate, to the income statement, within foreign exchange gains and losses, in the period in which they were incurred.

The official middle exchange rates for major currencies, determined at the Interbank Market, used in the translation of balance sheet items denominated in foreign currencies as of 31 December 2018 and 2017 into the functional currency (RSD) were as follows:

		In RSD
	31 December 2018	**31 December 2017**
EUR	118.1946	118.4727
CHF	104.9779	101.2847

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Intangible Assets

As of 31 December 2018 intangible assets are stated at cost less accumulated amortization. Intangible assets consist of computer software.

The amortization is computed on a straight-line basis in order to fully write off the cost of such assets over their estimated useful lives (rate 16.67%).

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred.

Costs that are directly associated with identifiable and unique software products controlled by the Company and will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the cost of the software development employees and an appropriate portion of relevant overheads.

3.5. Equipment

As of 31 December 2018 equipment is stated at cost the accumulated depreciation. Cost includes invoiced value of purchased assets and any directly-attributable costs of bringing the asset to the location and working condition necessary for its intended use.

Calculation of depreciation of equipment is performed from the month following the date when the use of the asset begins. Depreciation of equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as presented in the following table:

Computer equipment	20.00% - 30.00%
Furniture and other equipment	12.50% - 25.00%
Vehicles	20.00%

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of equipment and are included in the income statement.

Current maintenance costs are charged to the expenses in the period when incurred.

3.6. Receivables from Finance Lease Activities

The Company, as a lessor, recognizes assets held under a finance lease in its balance sheet and presents them as receivables from finance lease at an amount equal to the net investment in the lease. The Company transfers all risk inherent to ownership when lease contract is signed.

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

Finance income is recognized over the period of the lease on the basis of constant effective rate of return. Lease instalments that relate to the current period, excluding administrative costs, are recognized as a decrease of lease principals and unearned finance income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Impairment of Financial Assets

In accordance with its internal policy, the Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of contract covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower’s competitive position; and
- Deterioration in the value of collateral.

The Company firstly assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current interest rate determined under the contract.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Company’s grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Company and historical loss experience for assets with credit risk characteristics similar to those in the Company. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The internal Methodology for calculation of allowance for impairment and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

When a receivable is uncollectible, it is written off against the related allowance for impairment. Such receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Repossessed Assets

Finance lease assets repossessed in exchange of uncollectible receivables are valued at the lower of carrying amount (net book value) and fair value less costs to sell (net selling value). Gains and losses on sale of repossessed assets are recognized in the moment of sale in net amount in the income statement.

3.9. Advances Paid for Leased Assets

Advances paid to suppliers on the basis of finance lease contracts signed by lessees that are not activated (delivery did not take place yet, final invoice has not been raised etc.), are treated as financial assets and are indexed to the foreign currency, in accordance with IAS 32 “Financial instruments: Presentation”. Advances paid are presented within Repossessed assets.

3.10. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash in hand, sight deposits held with banks and bank overdrafts.

3.11. Borrowings

Long-term borrowings are initially recognized at fair value of the inflow (determined by using the prevailing interest rate in the market for a similar instrument, if it significantly differs from the transaction price), not including incurred costs of transactions.

After the initial recognition, liabilities are subsequently stated at amortized cost by using the effective interest rate method. Any difference between the fair value of the inflow (less cost of transaction) and repaid amount is recognized as interest expense during the life of the loan.

3.12. Accounts Payable

Accounts payable and other current liabilities are subsequently measured at amortized cost, being the nominal value due to the short-term nature of these liabilities.

3.13. Income Taxes

Current Income Tax

Current income tax is calculated and paid in accordance with the effective Law on Corporate Income Tax and by-laws.

Income tax is payable at the rate of 15% (2017: 15%) on the tax base reported in the annual corporate income tax return. The taxable base stated in the income tax return includes the profit shown in the statutory income statement, as adjusted for differences that are specifically defined under statutory tax rules.

The tax regulations in the Republic of Serbia do not envisage that any tax losses of the current period can be used to recover taxes paid within a specific previous period. Losses of the current period may be transferred to the account of profit determined in the annual tax return from the future accounting periods, but not longer than 5 ensuing years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Income Taxes (Continued)

Deferred Income Tax

Deferred income taxes are provided using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. The currently-enacted tax rates or the substantively-enacted rates at the balance sheet date are used to determine the deferred income tax amount.

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

3.14. Provisions and Contingencies

Provisions are recognized and calculated when the Company has a pending, present legal or contractual obligation as a result of a past event, and when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

Provisions for retirement benefits are measured at the present value of the estimated future cash outflows using interest rates of high-quality securities that are denominated in the currency in which the benefits will be paid (Note 3.15(c)).

Provisions for legal proceedings represent the Company management's best estimates of the expenditures required to settle such obligations (Note 25(b)).

Contingent liabilities are not recognized in the financial statements. They are disclosed (Note 25(b) and (c)) unless the possibility of an outflow of resources embodying economic benefits is remote.

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

3.15. Employee Benefits

(a) Employee Taxes and Contributions for Social Security

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

The Company bears the expenses of the employees' benefits such as health insurance, pension insurance, unemployment insurance and similar contributions. The Company is legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds.

These expenses are charged to the income statement as a part of salaries and other personnel costs (Note 13).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15. Employee Benefits (Continued)

(b) Pension Obligations

In its ordinary course of business, the Company pays contributions to the Republic of Serbia's pension fund on a mandatory basis and on behalf of its employees. The Company operates according to a defined contribution pension plan of the Republic of Serbia. The contributions are recognized as employee benefit expense in the period in which they arise.

The Company has no other pension plan and no further payment obligations once the contributions have been paid. The Company has no legal obligation to pay further benefits to its current or former employees by the Pension Fund of the Republic of Serbia upon their retirement.

(c) Termination and Retirement Benefits

Termination and retirement benefits are payable when employment is terminated before the normal retirement date, upon regular retirement (retirement benefits) or whenever an employee accepts voluntary redundancy in exchange for these benefits.

The Company recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

The Company is also obliged to pay retirement benefits upon regular retirement equal to three average salaries of the employee at the moment of payment, while the retirement benefit cannot be lower than two average salaries per employee in the Republic of Serbia at the moment of payment according to the latest published information of the competent state statistics office. There is no fund for these payments.

The provision for retirement benefits is charged to the income statement, based on the actuarial calculation. The Company did not calculate additional provisions for retirement benefits to employees for the year ended 31 December 2018 (Note 13).

As of 31 December 2018, the provision for redundancy payment amounts RSD 1,935 thousand (31 December 2017: RSD 2,461 thousand).

(d) Bonuses

The Company recognizes the liability and expense for bonuses and profit-sharing based on the calculation of the profit for the year attributable to shareholders after certain adjustments.

3.16. Related Party Disclosures

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

Relations between the Company and its related parties are regulated at contractual basis. Outstanding balances of receivables and liabilities at the reporting date, as well as transactions occurred during the reporting periods with related parties are separately disclosed in notes to the financial statements (Note 26).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17. Critical Accounting Judgments and Estimates

Accounting estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These estimates and related assumptions are based on information available as of the reporting date.

The Company makes estimates and assumptions concerning the future. Actual results could differ from those estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis, and changes in estimates are recognized in the periods in which they become known. In the text below are listed the assumptions that have a certain risk that may result in adjustment to the carrying amounts of assets and liabilities within the next financial year.

Income Tax

The Company is subject to income tax. The Company recognizes liabilities for anticipated tax issues arising from the audit, the assessment of whether there will be additional taxes. Where the final tax outcome of these matters in income tax is different from the amounts initially recorded, such differences will impact the current and deferred income taxes and the provision for deferred tax assets and liabilities in the period in which the differences found.

Pension Obligation

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying value of the pension obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms of maturity approximating the terms of maturity of the related pension liability.

Fair Value of Financial Assets and Liabilities

Fair value is defined as the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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

In the Republic of Serbia, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are presently not readily available. As a result of this, fair value cannot readily or reliably be determined in the absence of an active market, as required by IFRS. The Company's management assesses its overall risk exposure, and in instances in which it estimates that the value of assets stated in its books may not have been realized, it recognizes a provision.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17. Critical Accounting Judgments and Estimates (Continued)

Fair Value of Financial Assets and Liabilities (Continued)

According to the management's opinion, the amounts of assets and liabilities presented in financial statements as at 31 December 2018 are the most reliable estimated values under the circumstances.

The Company does not have financial assets or financial liabilities carried at fair value in the balance sheet. The fair values of short-term receivables from finance lease, other receivables from finance lease operations, short-term financial assets, cash and cash equivalents, short-term financial liabilities and other short-term liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The management of the Company believes that fair value of assets and liabilities which are stated at amortized cost do not differ significantly from their carrying value, as they mostly bear variable interest rates that are reflective of current market conditions.

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

4. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, and those activities require identification, measurement and estimation of the risk to which the Company is exposed to as well as managing those risks.

The Company has defined through its acts the procedures for risk identification, measurement and risk management in accordance with regulations, standards and best practice. The Company's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and monitor risks and adherence to limits by means of reliable and up-to-date information system. The Company's management is responsible for implementation of the adequate risk management system and its consistent application.

Types of Risk

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

- Credit risk;
- Market risks;
- Liquidity risk; and
- Other operating risks.

Market risks include:

- Currency risk – foreign exchange risk;
- Interest rate risk; and
- Other market risks.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1. Credit Risk

The Company is exposed to the credit risk to a significant degree. The Company has a determined credit policy in place to ensure that sales of products are made to customers with an appropriate credit history and creditworthiness. The credit policy defines the following:

- Goals of credit policy;
- Basic concepts of credit policy;
- Principles of credit policy;
- Organization of credit activities;
- Responsibility and decision making process;
- Procedure for approval of finance lease placements;
- Collaterals; and
- Collection procedure.

Provisions of the credit policy are following “four eyes principle”. When assuming credit risk, the Company applies the following fundamental rules:

- A prerequisite for every financing transaction is the understanding of the economic background of the transaction.
- A finance lease placement is granted only when the Company has sufficient information on the borrower’s creditworthiness. The Company will not approve a placement to a borrower who is unwilling or unable to provide sufficient information.
- The Company approves new lease placements based on the customer rating of the borrower and its development, as well as the estimation of the borrower’s payment capacity and the details and characteristics of the transaction.

The approval levels and limits are defined by the relevant Board of Directors’ Decision on approval levels.

In order to ensure the safety of the business operations, and based on the estimated risks of potential losses, the Company calculates and establishes provision, i.e. allowance for impairment, which arise from receivables and placements. Levels of provision are related to the risk grade of the placement. The internal rating system of the corporate clients comprised of 11 levels is based on weighted average of the following risk parameters on the client level (not individual contract level):

- Financial status;
- Industry;
- Management; and
- Business.

In addition to the above mentioned parameters, other factors such as borrower's character and payment record, changes in ownership structure, etc. can influence the overall credit rating of the client. The credit rating is based on detailed analysis of qualitative and quantitative factors.

Qualitative factors refer to management, industry, business conditions etc. Quantitative factors refer to profitability, leverage, liquidity and other parameters arising from financial statements of the client.

The retail rating system is based on number of days overdue and consists of 14 buckets, from placements with no overdue amounts up to placements with more than 360 days overdue.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Breakdown of the Company's **maximum exposure to credit risk** as of 31 December 2018 and 2017, without taking into account collaterals held, is presented in the table below:

	In RSD thousand	
	31 December 2018	31 December 2017
Receivables from finance lease activities (Note 18)	888	2,161
Other receivables	646	2,037
Short-term deposits with banks (Note 17)	23,639	23,695
Total	**25,173**	**27,893**

Breakdown of finance lease receivables and term deposits as of 31 December 2018 and 2017 is presented in the table below:

	In RSD thousand	
	31 December 2018	31 December 2017
Neither past due nor impaired	23,639	24,792
Past due but not impaired	422	391
Impaired	1,112	2,710
Total	**25,173**	**27,893**

An assessment of the portfolio quality of financial assets neither past due nor impaired is based on the Company's internal rating system in use.

As of 31 December 2018 and 2017, financial assets ***neither past due nor impaired*** include the receivables with the following rating:

	In RSD thousand	
	31 December 2018	31 December 2017
Satisfactory risk (rating from 1 to 6)	23,639	23,695
Watch list (rating 7)	-	-
No rating*	-	1,097
Total	**23,639**	**24,792**

**Retail clients, entrepreneurs and small business (small-size companies)*

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

The following table presents the ageing analysis of ***past due but not impaired*** receivables as of 31 December 2018:

In RSD thousand

	Retail, small business and entrepreneurs	Corporate clients	Total
Overdue up to 29 days	-	-	-
Overdue from 30 to 89 days	-	-	-
Overdue from 90 days to 1 year	422	-	422
Total	**422**	**-**	**422**

The following table presents the ageing analysis of ***past due but not impaired*** receivables as of 31 December 2017:

In RSD thousand

	Retail, small business and entrepreneurs	Corporate clients	Total
Overdue up to 29 days	-	-	-
Overdue from 30 to 89 days	-	-	-
Overdue from 90 days to 1 year	391	-	391
Total	**391**	**-**	**391**

As of 31 December 2018, ***impaired receivables*** relate to:

In RSD thousand

	Retail, small business and entrepreneurs	Corporate clients	Total
Individually impaired receivables, gross	**1,112**	**-**	**1,112**

As of 31 December 2017, ***impaired receivables*** relate to:

In RSD thousand

	Retail, small business and entrepreneurs	Corporate clients	Total
Individually impaired receivables, gross	**2,710**	**-**	**2,710**

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

As of 31 December 2018 and 2017, all finance lease receivables refer to the clients domiciled on the territory of the Republic of Serbia.

The analysis of the Company's credit risk exposure as of 31 December 2018, grouped by sectors, is presented in the table below:

In RSD thousand

	Trade and services	Retail	Manu-facturing	Constru-ction	Other	Total
Retail client, small business and entrepreneurs	-	-	-	1,112	-	1,112
Corporate clients	-	-	-	-	422	422
Banks	-	-	-	-	23,639	23,639
Total	**-**	**-**	**-**	**1,112**	**24,061**	**25,173**

The analysis of the Company's credit risk exposure as of 31 December 2017, grouped by sectors, is presented in the table below:

In RSD thousand

	Trade and services	Retail	Manu-facturing	Constru-ction	Other	Total
Retail client, small business and entrepreneurs	-	887	-	1,064	1,773	3,724
Corporate clients	-	-	-	-	474	474
Banks	-	-	-	-	23,695	23,695
Total	**-**	**887**	**-**	**1,064**	**25,942**	**27,893**

4.2. Market Risk

The Company is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements and changes of the interest rates and foreign exchange rates.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2. Market Risk (Continued)

(a) Foreign Exchange Risk

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

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to EUR and CHF. The Company agrees foreign currency clauses in rental contracts as protection from the foreign exchange risk, as well as daily monitoring of open position.

The management of currency risk is supplemented by monitoring the sensitivity of the Company's income statement to various foreign currency rate scenarios. The sensitivity of the income statement is the effect of the assumed changes in FX rate for one year.

An analysis of the Company's sensitivity to an increase in FX rates is as follows:

In RSD thousand

	2018	2017
Foreign exchange rate sensitivity +10% (RSD depreciation)	**57**	**1,638**

(b) Interest Rate Risk

The Company is exposed to interest rate risk in the market which can affect its financial position and cash flows.

As a result of these changes, the interest rate margin can be increased; however, the fall in interest margin or loss is also possible due to unexpected changes. The Company's interest rates are based on the market interest rates and the Company reviews them regularly.

The purpose of the risk management activities is to optimize the net interest income, and to maintain the market interest rate on a consistent level in accordance to the Company's business strategy.

The management of the Company manages maturities matching of the assets and liabilities' on the basis of: macro and micro economic estimations, estimations of the conditions for achieving liquidity, and the estimation of the interest rates' trends.

The risk management is conducted by the Company's Finance Department in accordance with the policies approved by the Board of Directors. The Company's Finance Department identifies and estimated finance losses and defines the ways to protect from risk in close cooperation with the Company's business units.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2 Market Risk (Continued)

(b) Interest Rate Risk (Continued)

An analysis of the Company's sensitivity to an increase in interest rates is as follows:

		In RSD thousand
	2018	**2017**
Interest rate sensitivity increase +1 basis points	**-**	**(2,533)**

As of 31 December 2018 the Company does not have borrowings from banks and other financial institutions.

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

The following table shows the Reprising gap report, i.e. the Company's exposure to the interest rate risk as of 31 December 2018. The table includes the Company's assets and liabilities at their carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2. Market Risk (Continued)

(b) Interest Rate Risk (Continued)

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months to 5 years	Over 5 years	Interest non-sensible	Total
ASSETS									
Cash and cash equivalents	-	-	-	-	-	-	-	73,681	73,681
Short-term financial placements	-	-	-	-	-	-	-	23,639	23,639
Receivables from finance lease activities	-	-	-	-	-	-	-	888	888
Property, plant and equipment	-	-	-	-	-	-	-	600	600
Deferred tax assets	-	-	-	-	-	-	-	422	422
Other assets	-	-	224	-	-	-	-	19,398	19,622
TOTAL ASSETS	**-**	**-**	**224**	**-**	**-**	**-**	**-**	**118,628**	**118,852**
LIABILITIES AND EQUITY									
Borrowings	-	-	-	-	-	-	-	-	-
Provisions	-	-	-	-	-	-	-	2,841	2,841
Other liabilities	-	-	-	-	-	-	-	2,896	2,896
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,737**	**5,737**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**113,115**	**113,115**
TOTAL LIABILITIES AND EQUITY	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**118,852**	**118,852**
Periodical GAP as of 31 December 2018	**-**	**-**	**224**	**-**	**-**	**-**	**-**	**(224)**	**-**
Cumulative GAP	**-**	**-**	**224**	**-**	**-**	**-**	**-**	**(224)**	**-**

4. FINANCIAL RISK MANAGEMENT (Continued)

4.3. Liquidity Risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations which can have an adverse effect on the Company's financial results and equity.

The Company manages this risk by obtaining different long-term and short-term funding sources that include:

- Borrowings within Eurobank Group, and
- Permanent investments (share capital).

The Company monitors continuously liquidity risk by identifying and monitoring changes in the funding sources that are required for accomplishing business strategy of the Company.

The Company aims to provide enough sources to fulfil its obligations for payments and new business disbursement to its clients.

The Company manages the liquidity risk by constant monitoring of maturity mismatch of assets and liabilities by analyzing the projected cash flows in order to enable the Company fulfilling its obligations at any moment.

The table below presents the amounts disclosed in the table are contractual undiscounted cash flows as of 31 December 2018.

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Total
Borrowings	-	-	-	-	-
Accounts payable	-	2,896	-	-	2,896
Total	**-**	**2,896**	**-**	**-**	**2,896**

The table below presents, the amounts disclosed in the table are contractual undiscounted cash flows as of 31 December 2017.

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Total
Borrowings	-	2	73,677	-	73,679
Accounts payable	-	3,337	-	-	3,337
Total	**-**	**3,339**	**73,677**	**-**	**77,016**

4. FINANCIAL RISK MANAGEMENT (Continued)

4.3. Liquidity Risk (Continued)

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

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months to 5 years	Over 5 years	Interest non-sensible	Total
ASSETS									
Cash and cash equivalents	73,681	-	-	-	-	-	-	-	73,681
Short-term financial placements	-	-	23,639	-	-	-	-	-	23,639
Receivables from finance lease activities	-	-	-	-	-	-	-	888	888
Property, plant and equipment	-	-	-	-	-	-	-	600	600
Deferred tax assets	-	-	-	-	-	-	-	422	422
Other assets	-	-	-	-	-	-	-	19,622	19,622
TOTAL ASSETS	**73,681**	**-**	**23,639**	**-**	**-**	**-**	**-**	**21,532**	**118,852**
LIABILITIES AND EQUITY									
Borrowings	-	-	-	-	-	-	-	-	-
Provisions	-	-	-	-	-	-	-	2,841	2,841
Other liabilities	-	-	-	-	-	-	-	2,896	2,896
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,737**	**5,737**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**113,115**	**113,115**
TOTAL LIABILITIES AND EQUITY	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**118,852**	**118,852**
Maturity mismatch as of:									
- 31 December 2018	**73,681**	**-**	**23,639**	**-**	**-**	**-**	**-**	**(97,320)**	**-**
- 31 December 2017	**159,018**	**23,933**	**(72,632)**	**376**	**-**	**-**	**-**	**(110,695)**	**-**

From the presented report, it can be concluded that there is a high level of liquidity, especially in the period of up to 30 days, whereas the manual mismatch is presented in the period from 3 to 6 months.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.4. Operational Risk

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

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

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

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

Operational risks are traced through the "Red B" application. Recording of identified events that cause the Company's operational risks is performed by operational risk monitoring coordinator. All situations that may result in some kind of loss are entered into the application (e.g., initiated litigations, engagement of agencies for the repossession of the subjects of lease, etc.).

The Company harmonized its policies and procedures with the new legislation relating to risk management defined by the new Law on Financial Lease. Company defined the system of internal controls in a manner that enables continued identification, measurement and assessment of risks which may have an adverse impact on its operations.

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

4.5. Capital Management

The Company's objective when managing capital is to maintain its ability to conduct business operations for an unlimited period of time in the foreseeable future, so as to ensure the returns (profit) to the owners, and benefits to other interest parties, and to preserve an optimal capital structure with the aim of reducing capital expenses.

In order to maintain or adjust the capital structure, the Company may consider the following options: to adjust the amount of dividends paid to shareholders, to return capital to shareholders, to issue new shares or to sell assets to reduce debts.

The Company's strategy in respect of capital risk management has remained unchanged from the previous year.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.5. Capital Management (Continued)

In accordance with the Law on Finance Lease ("RS Official Gazette", no. 55/2003, 61/2005 and 31/2011), for the performance of finance lease activities the object of which is a movable good, 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 good, the pecuniary portion of the initial capital of the lessor cannot be lower than the dinar equivalent of EUR 5,000,000 at the official middle exchange rate as at the payment date.

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

As of 31 December 2018, the Company's share capital is above the prescribed minimum for the performance of finance lease activities the object of which is a movable good.

5. INTEREST INCOME

		In RSD thousand
		For the Year Ended 31 December
	2018	2017
Interest income from finance lease	6	1,069
Penalty interest	-	782
Interest income from deposits (Note 26)	205	366
Total	**211**	**2,217**

6. INTEREST EXPENSES

		In RSD thousand
		For the Year Ended 31 December
	2018	2017
Interest expenses on borrowings (Note 26)	43	1,497
Total	**43**	**1,497**

7. FEE AND COMMISSION INCOME

	In RSD thousand	
	For the Year Ended 31 December	
	2018	2017
Insurance fees	25	246
Finance lease origination fees	6	234
Income from issuance of warning letters for payments in delay	-	7
Re-invoiced income from inscription in registry	1	54
Total	**32**	**541**

8. FEE AND COMMISSION EXPENSES

	In RSD thousand	
	For the Year Ended 31 December	
	2018	2017
Insurance premiums	25	200
Registration fees for lease agreements	2	48
Total	**27**	**248**

9. NET FOREIGN EXCHANGE LOSSES AND EFFECTS OF FOREIGN CURRENCY CLAUSE

	In RSD thousand	
	For the Year Ended 31 December	
	2018	2017
Positive effects of currency clause	372	21,024
Positive exchange rate differences	1	4,994
Total income	**373**	**26,018**
Negative effects of currency clause	(374)	(38,027)
Negative exchange rate differences	(514)	(739)
Total expenses	**(888)**	**(38,766)**
Net expenses	**(515)**	**(12,748)**

10. OTHER OPERATING REVENUES

	In RSD thousand	
	For the Year Ended 31 December	
	2018	2017
Reversal of long-term provisions	-	1,780
Gains from sale of repossessed assets	216	253
Other revenues	4,010	1,860
Total	**4,226**	**3,893**

11. NET IMPAIRMENT GAINS FROM FINANCE LEASE ACTIVITIES

	In RSD thousand	
	For the Year Ended 31 December	
	2018	2017
Gains from changes in value of receivables from finance lease	-	23,446
Impairment of receivables and assets	-	(893)
Net impairment gains (Note 18(b))	**-**	**22,553**

12. NET IMPAIRMENT LOSSES FROM REPOSSESSED ASSETS

	In RSD thousand	
	For the Year Ended 31 December	
	2018	2017
Net impairment losses from repossessed assets	-	(2,372)
Net losses	**-**	**(2,372)**

13. SALARIES AND OTHER PERSONNEL COSTS

	In RSD thousand	
	For the Year Ended 31 December	
	2018	2017
Net salaries	7,440	9,662
Taxes and contributions on salaries paid by the employer	1,280	1,678
Provisions for redundancy and retirement benefits	-	2,461
Other personnel costs	137	161
Total	**8,857**	**13,962**

14. OTHER EXPENSES

	In RSD thousand	
	For the Year Ended 31 December	
	2018	2017
Legal costs	410	16,485
Advisory services	-	8,968
Rent of office space (Note 26)	1,766	1,814
Maintenance	914	1,589
Provisions for litigation cases (Note 22)	906	1,100
Membership fees	-	547
Administration taxes and communal services	892	535
Communication and transport	275	262
Petrol costs	77	137
Insurance premiums	137	75
Office stationary and services	-	50
Other expenses	3,977	7,789
Total	**9,354**	**36,351**

15. INCOME TAXES

(a) Components of Income Taxes

	In RSD thousand For the Year Ended 31 December 2018	2017
Current tax expense	-	8,056
Deferred tax expense	-	3,246
Total income tax expense	**-**	**11,302**

(b) Numerical Reconciliation of Income Tax Expense and Loss before Tax multiplied by the Statutory Income Tax Rate

	In RSD thousand For the Year Ended 31 December 2018	2017
Loss before tax	**(14,545)**	**(38,190)**
Income tax at statutory rate of 15%	**(2,182)**	**(5,728)**
Tax effects of expenses not deductible for tax purposes	2,182	14,849
Losses carried forward	-	(1,065)
Deferred tax effects	-	3,246
Income tax expense	**-**	**11,302**
Effective tax rate	-	-

(c) Deferred Tax Assets

Deferred tax assets entirely to the temporary differences arising between the carrying values of equipment and intangible assets and their tax base, and provision for retirement benefits and impairment of assets.

As at 31 December 2017, the Company performed reversal of previously calculated deferred tax assets.

	In RSD thousand 2018	2017
Balance as of 1 January	-	3,246
Effects of temporary differences charged to income statement	-	(3,246)
Balance as of 31 December	-	-

16. CASH AND CASH EQUIVALENTS

In RSD thousand

	31 December 2018	31 December 2017
Current accounts:		
- in RSD	73,650	159,925
- in foreign currency	31	30
Balance as of	**73,681**	**159,955**

During 2018 and 2017, the Company performed payment and settlement transactions in domestic and foreign currency through its accounts held with Eurobank a.d. Belgrade.

17. SHORT-TERM FINANCIAL PLACEMENTS

Other short-term financial placements as of 31 December 2018 amount to RSD 23,639 thousand (31 December 2017: RSD 23,695 thousand) and completely relate to short-term deposits with Eurobank a.d. Belgrade.

18. RECEIVABLES FROM FINANCE LEASE ACTIVITIES

In RSD thousand

	31 December 2018	31 December 2017
Minimal finance lease payments	-	1,404
Less Accrued interest rate	-	(43)
	-	**1,361**
Overdue finance lease receivables	1,102	1,064
Other receivables from financial lease	1,002	1,002
Gross financial lease receivables	**2,104**	**3,427**
Less: Allowance for impairment	(1,216)	(1,266)
Balance as of	**888**	**2,161**

Investments in finance lease include vehicles, equipment and house appliances held for lease for the period ranging from two to seven years, with down payment between 0% and 50%, at a nominal interest rate varying between 0% and 12% per annum and management (finance lease origination) fee between 0% and 2.5% of the net cost of the leased asset.

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

18. RECEIVABLES FROM FINANCE LEASE ACTIVITIES (Continued)

Net receivables from finance lease (both long-term and short-term) as of 31 December 2018 and 2017 are presented in the table below:

	31 December 2018	31 December 2017
		In RSD thousand
Up to 1 year	888	376
fFom 1 to 5 years	-	1,785
Balance as of	**888**	**2,161**

(a) Other Receivables from Financial Lease

	31 December 2018	31 December 2017
		In RSD thousand
Receivables for re-invoiced expenses	994	994
Other	8	8
Gross other receivables	**1,002**	**1,002**
Less: Allowance for impairment	(837)	(837)
Balance as of	**165**	**165**

(b) Movements in the Allowance for Impairment of Receivables from Finance Lease Activities during the Year

	In RSD thousand
Balance as of 1 January 2017	**241,948**
Reversal of impairment losses (Note 11)	(22,553)
Write-off	(210,253)
Foreign exchange differences, net	(7,876)
Balance as of 31 December 2017	**1,266**
Foreign exchange differences, net	(50)
Balance as of 31 December 2018	**1,216**

19. REPOSSESSED ASSETS AND ADVANCES

		In RSD thousand
	31 December 2018	31 December 2017
Finance lease assets repossessed in exchange of uncollectible receivables	-	2,453
Advances paid	-	16
Balance as of	**-**	**2,469**

As of 31 December 2018, there was no finance lease assets repossessed in exchange of uncollectible receivables that are intended for the further selling.

20. OTHER ASSETS

		In RSD thousand
	31 December 2018	31 December 2017
Refund receivables	573	578
Claims arising from re-invoiced insurance expenses	453	133
Receivables for the overpaid VAT	19,379	18,402
Other receivables	25	410
Gross receivables	**20,430**	**19,523**
Less: Impaired receivables	(808)	(808)
Balance as of	**19,622**	**18,715**

21. BORROWINGS

		In RSD thousand
	31 December 2018	31 December 2017
Borrowings abroad	-	73,617
Interest payable	-	62
Balance as of	**-**	**73,679**

The loans that were due for payments on December 31st 2017 were repaid during January 2018.

22. PROVISIONS

In RSD thousand

	31 December 2018	31 December 2017
Provisions for redundancy and retirement	1,935	2,461
Provision for litigation (Note 14)	906	1,100
Balance as of	**2,841**	**3,561**

23. OTHER LIABILITIES

In RSD thousand

	31 December 2018	31 December 2017
Accrued audit expenses	745	1,398
Liabilities for letters of guaranties (Note 26)	1,827	1,827
Accrued income from leasing fees	-	6
Advances received	-	2
Other liabilities	324	104
Balance as of	**2,896**	**3,337**

24. SHARE CAPITAL

Share capital of the Company is formed by the initial shareholders' payments and subsequent share issues. Nominal value of one share is RSD 100,000.

As of 31 December 2018 the pecuniary portion of the Company's share capital is in line with the requirement of the Law on Finance Lease (minimum EUR 500,000).

The Company's share capital structure at 31 December 2018 and 31 December 2017 is presented in the table below:

	Number of shares	Amount of share capital in RSD 000	Interest in %	Number of votes
Eurobank a.d. Belgrade	585	58,500	49.49	49
ERB New Europe Holding B.V. Amsterdam, Holland	390	39,000	32.99	33
Eurobank Ergasias S.A. Athens, Greece	207	20,700	17,52	18
Total	**1,182**	**118,200**	**100.00**	**100**

25. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating Lease Commitments

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

As of 31 December 2018, the Company did not have obligations under the lease of business premises.

(b) Litigation

As of 31 December 2018, the Company acts as a defendant in six court cases. The total value of potential damage claims amounts to RSD 80,756 thousand (31 December 2017: RSD 63,753 thousand), excluding penalty interests that may arise with respect thereto.

From the aforementioned total value of the litigation claims, the most significant amount of RSD 63,581 thousand is related to the lawsuit filed by "GT COOP" GPZR Belgrade, which was filed against the Company on 4 December 2017. The management of the Company considers that this claim is entirely legally unfounded.

As of 31 December 2018 the Company recognized the amount of RSD 906 thousand (31 December 2017: RSD 1,100 thousand) for potential losses that might arise as a result of the aforementioned legal claims (Note 14).

The Company's management considers that no material liabilities will arise as a result of the remaining legal proceedings still in course, other than those provided for.

(c) Tax Risks

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

26. RELATED PARTY DISCLOSURES

The Company is a subsidiary of Eurobank Group. The related legal entities of the Company are, shareholders and other legal entities from the Eurobank Group.

Transactions with the shareholders (Note 24) and other related parties, i.e. outstanding balances of receivables and liabilities as of **31 December 2018**, as well as income earned and expenses incurred during the year then ended are presented in the table below:

In RSD thousand

	Eurobank a.d. Belgrade	**ERB New Europe Funding B.V. Amsterdam**	**Eurobank Ergasias S.A. Athens**	**Be-Business Exchanges S.A.**
Receivables				
Cash and cash equivalents (Note 16)	73,681	-	-	-
Short-term financial placements (Note 17)	23,639	-	-	-
	97,320	**-**	**-**	**-**
Liabilities				
Liabilities for letters of guaranties (Note 23)	-	-	1,827	-
	-	**-**	**1,827**	**-**
Income				
Interest income (Note 5)	205	-	-	-
	205	**-**	**-**	**-**
Expenses				
Interest expense (Note 6)	-	43	-	-
Services	66	-	-	119
Fees and commissions	81	-	-	-
Rent of office space (Note 14)	1,766	-	-	-
	1,913	**43**	**-**	**119**

26. RELATED PARTY DISCLOSURES (Continued)

Transactions with the related parties, i.e. outstanding balances of receivables and liabilities as of **31 December 2017**, as well as income and expenses earned/incurred during the year then ended are presented as follows:

In RSD thousand

	Eurobank a.d. Belgrade	ERB New Europe Funding B.V. Amsterdam	Eurobank Ergasias S.A. Athens
Receivables			
Cash and cash equivalents (Note 16)	159,955	-	-
Short-term financial placements (Note 17)	23,695	-	-
	183,650	**-**	**-**
Liabilities			
Borrowings abroad (Note 21)	-	73,617	-
Interest payable (Note 21)	-	62	-
Liabilities for letters of guaranties (Note 23)	-	-	1,827
	-	**73,679**	**1,827**
Income			
Interest income (Note 5)	366	-	-
	366	**-**	**-**
Expenses			
Interest expense (Note 6)	-	1,497	-
Services	90	-	-
Fees and commissions	118	-	-
Rent of office space (Note 14)	1,814	-	-
	2,022	**1,497**	**-**

27. EVENTS AFTER THE REPORTING PERIOD

There were no significant events after balance sheet date that would require disclosure in the Company's financial statements for the year ended 31 December 2018.

Belgrade, 12 April 2019

Vladan Miljanovic

Legal Representative

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