

IEFK BANKA A.D., BANJA LUKA

**Financial Statements
For the Year Ended
December 31, 2009 and
Independent Auditors' Report**

CONTENTS

	Page
Independent Auditors' Report	1-2
Financial Statements:	
Income Statement	3
Balance Sheet	4
Statement of Changes in Equity	5
Cash Flow Statement	6
Notes to the Financial Statements	7 – 31

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Supervisory Board of IEFK banka a.d., Banja Luka

1. We were engaged to audit the accompanying financial statements (pages 3 to 31) of IEFK banka a.d., Banja Luka (the "Bank"), which comprise the balance sheet as of December 31, 2009 and the related income statement, 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.

Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting regulations of the Republic of Srpska. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Basis for Disclaimer of Opinion

3. As disclosed in the accompanying financial statements, the Bank incurred a loss in the business year 2009 in the amount of BAM 4,319 thousand and negative cash flows from operations in the amount of BAM 5,198 thousand and as of December 31, 2009, the accumulated losses totaled BAM 6,526 thousand. In addition to the aforementioned and as disclosed in Note 18 to the financial statements, at December 31, 2009, the net capital of the Bank amounted to BAM 13,191 thousand although the minimum amount of the Bank's paid-in founding capital in cash and the minimum amount of the Bank's net paid in founding capital in cash which must be maintained must at all times be above BAM 15,000 thousand. Based on Article 19 of the Law on Banks of the Republic of Srpska, in case the amount of capital and reserves in the Bank is below the minimum prescribed, the Banking Agency of the Republic of Srpska may decide to cancel the Bank's operating license. Also, on October 16, 2009, the Shareholder Assembly of the Bank enacted a Decision on the Second Share Issue via public offering. The deadline for the subscription of shares from the second issue is 90 days starting from December 31, 2009. According to the representations of the Bank's management, until the issuance of these financial statements, the second share issue was unsuccessful, i.e. there were no interested investors. In addition to all the above and as further disclosed in Note 11 to the financial statements, assets held with other banks in the amount of BAM 10,553 thousand include a portion of frozen cash funds aggregating to BAM 4,992 thousand (20% of total assets as of December 31, 2009) which the Bank can use as necessary. These facts indicate the existence of a material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern in the forthcoming period. The accompanying financial statements of the Bank prepared for the year 2009 do not include adjustments thereof that may be necessary.

(Continued)

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Supervisory Board of IEFK banka a.d., Banja Luka (Continued)

Disclaimer of Opinion

Because of the significance of the matters disclosed in Item 3 “Basis for Disclaimer of Opinion,” we are not in a position to, and do not, express an opinion on the financial statements of IEFK Banka a.d., Banja Luka as of and for the year ended December 31, 2009.

Emphasis of Matter

Without expressing our opinion of the Bank’s financial statements for the year 2009, we draw attention to the fact that the Bank is under obligation to comply in its operations with the accounting standards and policies effective in the Republic of Srpska, as well as the provisions prescribed by the Banking Agency of the Republic of Srpska, acting as a supervisory body in the banking sector of the Republic of Srpska. As disclosed in Note 19b, as of December 31, 2009, two business ratios were not within the prescribed limits.

Banja Luka,
February 12, 2010

Certified Auditor
Žarko Mionić

INCOME STATEMENT
Year Ended December 31, 2009
(Thousands of BAM)

	<u>Note</u>	Year Ended December 31,	
		<u>2009</u>	<u>2008</u>
Interest income	3.1, 4	866	1,436
Interest expense	3.1, 5	<u>(352)</u>	<u>(470)</u>
Net interest income		<u>514</u>	<u>966</u>
Fee and commission income	3.1, 6	132	96
Fee and commission expense	3.1, 7	<u>(28)</u>	<u>(40)</u>
Net fee and commission income		<u>104</u>	<u>56</u>
Other operating income		22	3
Other operating expenses	8	(2,365)	(2,419)
Foreign exchange losses, net	3.2	(3)	(27)
Provisions for potential losses, net	3.5, 9a	<u>(2,591)</u>	<u>(291)</u>
Loss from operations before tax		(4,319)	(1,712)
Income taxes	3.7	<u>-</u>	<u>-</u>
Loss for the year		<u>(4,319)</u>	<u>(1,712)</u>

The accompanying notes form an integral part
of these financial statements.

These financial statements were adopted by the Bank's management on February 11, 2010 and will be proposed to the Supervisory Board of the Bank for the adoption.

Signed on behalf of IEFK banka a.d., Banja Luka:

Nebojša Dželebdžić
Director

Enisa Bosnić
Director of Finance and
Accounting Department

BALANCE SHEET
As of December 31, 2009
(Thousands of BAM)

	<u>Notes</u>	<u>December 31, 2009</u>	<u>December 31, 2008</u>
ASSETS			
Cash and balances with the Central Bank	10	7,874	12,996
Due from other banks	11	10,553	11,071
Loans to customers	3.4, 12	5,469	5,973
Equipment and intangible assets	3.3, 13	817	564
Accrued interest and other assets	14	68	72
Total assets		<u>24,781</u>	<u>30,676</u>
LIABILITIES AND EQUITY			
Liabilities			
Bank deposits	15	3,500	-
Due to customers	16	5,089	12,477
Other liabilities	17	70	113
Provisions for potential losses	9b	2,648	293
Total Liabilities		<u>11,307</u>	<u>12,883</u>
Equity			
Share capital	18	20,000	20,000
Accumulated losses		<u>(6,526)</u>	<u>(2,207)</u>
Total equity		<u>13,474</u>	<u>17,793</u>
Total liabilities and equity		<u>24,781</u>	<u>30,676</u>
Contingent liabilities and commitments	19	<u>537</u>	<u>274</u>

The accompanying notes form an integral part
of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2009
(Thousands of BAM)

	<u>Share Capital</u>	<u>Accumulated Losses</u>	<u>Total</u>
Balance, January 1, 2008	20,000	(495)	19,505
Loss for the year	-	(1,712)	(1,712)
Balance, December 31, 2008	<u>20,000</u>	<u>(2,207)</u>	<u>17,793</u>
Balance, January 1, 2009	20,000	(2,207)	17,793
Loss for the year	-	(4,319)	(4,319)
Balance, December 31, 2009	<u>20,000</u>	<u>(6,526)</u>	<u>13,474</u>

The accompanying notes form an integral part
of these financial statements.

CASH FLOW STATEMENT
Year Ended December 31, 2009
(Thousands of BAM)

	Year Ended December 31,	
	2009	2008
Cash flows from operating activities		
Interest receipts	748	1,416
Interest paid	(387)	(457)
Fee and commission receipts	135	92
Fee and commission paid	(28)	(36)
Inflows from the collection of receivables previously written off	10	-
Payments to employees and suppliers	(2,194)	(2,378)
Operating loss prior to changes in operating assets and liabilities	(1,716)	(1,363)
Changes in operating assets and liabilities		
Net decrease /(increase) in loans to customers	504	(5,972)
Net increase in other assets	(1)	(12)
Net increase on bank deposits	3,500	-
Net (decrease)/increase in amounts due to customers	(7,388)	7,249
Net (decrease)/increase in other liabilities	(97)	43
<i>Net cash used in operating activities</i>	<u>(5,198)</u>	<u>(55)</u>
Cash flows from investing activities		
Purchase of fixed assets	(442)	(315)
<i>Net cash used in investing activities</i>	<u>(442)</u>	<u>(315)</u>
Net decrease in cash and cash equivalents	(5,640)	(370)
Cash and cash equivalents, beginning of year	24,067	24,437
Cash and cash equivalents, end of year	18,427	24,067
Cash and cash equivalents comprise the following positions:		
- Cash and balances with the Central Bank	7,874	12,996
- Due from other banks	10,553	11,071
	<u>18,427</u>	<u>24,067</u>

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2009***All amounts expressed in thousands of BAM, unless otherwise stated.***1. BANK'S ESTABLISHMENT AND OPERATING POLICY**

IEFK Banka a.d., Banja Luka (hereinafter the "Bank") was established on June 12, 2007 and was duly entered in the Court Register pursuant to the Decision issued by the Basic Court in Banja Luka numbered 071-0-REG-07-001240.

In the process of the Bank's registration, all requirements defined by the regulatory authorities with respect to the principal banking activities were fulfilled. In accordance with its Decision numbered 03-231-11/2007 of May 11, 2007, the Republic of Srpska Banking Agency (the "ABRS" or "Agency") issued an operating license to the Bank, and pursuant to Decision numbered 03-657-4/2007 of July 12, 2007, the Agency issued to the Bank a license to conduct international payment transactions.

In the Republic of Srpska, the Bank is licensed to perform a broad range of banking activities that include payment transfers, credit and deposit operations in the country and abroad, and as in accordance with the Republic of Srpska banking legislation, the Bank is to operate based upon the principles of liquidity, solvency and profitability.

The Bank is headquartered in Banja Luka, 11a Vase Pelagića Street.

As of December 31, 2009, the Bank was comprised of a Head Office in Banja Luka, a Branch Office in Laktaši and an Office in Belgrade.

As of December 31, 2009, the Bank had 29 employees (December 31, 2008: 30 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION**2.1. Basis of Preparation and Presentation of Financial Statements**

The Bank's financial statements were prepared in accordance with the accounting regulations in the Republic of Srpska and the Law on Banks of the Republic of Srpska, as well as Decisions issued by the Republic of Srpska Banking Agency regulating the financial reporting of banks throughout the Republic's territory.

In accordance with the provisions of the Law on Accounting and Auditing of the Republic of Srpska, as published in the Official Gazette of RS numbered 67/05 on July 21, 2005, all legal entities situated on the territory of the Republic of Srpska are under an obligation to fully apply International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), applicable as of December 31, 2005, as well as the Code of Ethics for Professional Accounting Accountants and the pronouncements, interpretations and guidelines enacted by the International Federation of Accountants (IFAC) as of the period commencing on or after January 1, 2006.

The amendments to IAS and all IFRS released after the adoption of the Republic of Srpska Law on Accounting and Auditing (June 30, 2005), have not been published and officially enacted in the Republic of Srpska, and accordingly, they have not been applied in the preparation of the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

*All amounts expressed in thousands of BAM, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)****2.1. Basis of Preparation and Presentation of Financial Statements (Continued)**

In addition, the accounting regulations of the Republic of Srpska depart from the requirements of IFRS and IAS in the following material aspects of financial reporting:

- The Bank's management assesses allowances for impairment of financial instruments in accordance with the relevant Republic of Srpska Banking Agency Regulations (Note 3.5). Such a policy may result in significant departures from the amounts which would have been determined, had the allowances for impairment of financial instruments been estimated based on discounted expected future cash flows using the original effective interest rate, as is required under IAS 39, "Financial Instruments: Recognition and Measurement;"
- Financial instruments originated by the Bank and the financial instruments held-to-maturity are presented in the balance sheet at the amounts outstanding from customers as adjusted by the estimated allowance for impairment. This policy departs from IAS 39 "Financial Instruments: Recognition and Measurement" which prescribes the valuation of these types of financial instruments at their amortized cost, using the effective interest rate method;
- Provisions for potential losses on bad receivables arising from loans, interest, fees and commissions is not deducted from the corresponding asset categories, but shown under liabilities. This policy is not in agreement with IFRS 7 "Financial Instruments: Disclosures" and IAS 37, "Provisions, Contingent Liabilities and Contingent Assets," which require the disclosure of long-term provisions within liabilities, in case such obligations exist and if an outflow of resources embodying economic benefits may be required to settle such liability;
- Suspended interest represents the accrued, but uncollected interest payments on assets which are classified as impaired assets (i.e., assets classified as sub-standard, doubtful and/or inherent loss). Upon the classification of risk-bearing assets as impaired assets, the Bank writes down the full amount of the accrued but unpaid interest, and reverses it by forming an allowance for loan losses which is charged to the income statement. The Bank ceases to accrue further unpaid interest amounts on impaired assets in its accounting records, and the accruals of interest amounts due are recorded in its off-balance sheet records, until the principal is fully collected. The only exception to this practice may occur in an instance in which the impaired assets have been secured by first-class or quality collateral, and are concurrently in the process of being collected. Such policy is not in accordance with IAS 18 "Revenue" and IAS 39 "Financial Instruments: Recognition and Measurement" which require interest income from impaired loans to be recognized using the effective interest method;
- Based on the statutory rules, loan origination fees are presented as part of income from fees and commissions and not as an integral part of the effective interest rate as required by IAS 18 "Revenue" and IAS 39 "Financial Instruments: Recognition and Measurement"
- In the Republic of Srpska, sufficient market experience, stability and liquidity do not exist for the purchase and sale of loans and other financial assets or liabilities, for which published market information is not readily nor reliably available. Accordingly, fair value cannot readily be determined in the absence of an active market, as required by IAS 32, "Financial Instruments: Presentation and Disclosure," and IAS 39, "Financial Instruments: Recognition and Measurement."

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

*All amounts expressed in thousands of BAM, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)****2.1. Basis of Preparation and Presentation of Financial Statements (Continued)**

- IFRS 7 “Financial Instruments: Disclosures” has not been officially issued and adopted in the Republic of Srpska. Accordingly, these financial statements do not include disclosures of qualitative and quantitative information on the Bank’s exposures contingent on financial instruments, including certain minimum disclosures for credit risks, liquidity risks and market risks, in accordance with the aforementioned standard.

Due to the potential effects which the above-mentioned departures may have upon the fairness of information presented in the Bank’s financial statements for 2009, these financial statements cannot be treated as having been prepared in accordance with International Accounting Standards, i.e. International Financial Reporting Standards.

The figures in the accompanying financial statements have been expressed in thousands of convertible marks (BAM) which is the official currency in the Republic of Srpska.

The financial statements of the Bank are prepared in accordance with the accounting and tax policies of Republic of Srpska disclosed in Note 3 to the financial statements.

Regulations, standards and interpretations in issue not yet adopted in the Republic of Srpska

Changes in prevailing IFRS standards and interpretations, and the recently adopted standards and interpretations, released after the adoption of the Law on Accounting and Auditing of the Republic of Srpska (June 30, 2005), were not published and legally enacted in the Republic of Srpska, and consequently, were not applied in the preparation of these financial statements.

On April 8, 2009 the National Assembly of the Republic of Srpska adopted new Law on accounting and audit, which regulates the preparation and audit of financial statements of all legal entities in the Republic of Srpska, which is enforceable starting from January 1, 2010. Pursuant to the recently enacted Law, legal entities domiciled in the Republic of Srpska are obliged to prepare their financial statements for the periods starting on or after December 31, 2010 in accordance with IFRS and IAS. Up to the date these financial statements were authorized for issue, the governing bodies of the Republic of Srpska have not issued the translations of the currently prevailing standards and interpretations.

Further, in accordance with the newly enacted Law, the “Rules on the Chart of Accounts and the Contents of Accounts in the Chart of Accounts for Banks and Other Financial Organizations” (Official Gazette 61/09), “Rules on the Contents and Form of Financial Statements for Banks and Other Financial Organizations” (Official Gazette 67/09) and “Rules on the Content and Form of the Statement of Changes in Equity” (Official Gazette 84/09) were adopted. In preparing the financial statements, the Bank is under obligation to apply these Rules in full.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2009***All amounts expressed in thousands of BAM, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)****2.2. Comparative Data**

As comparative data, the Bank provided the income statement, statement of changes in equity and cash flow statement for the year ended December 31, 2008, as well as the balance sheet as of December 31, 2008.

2.3. Use of Estimates

The presentation of the financial statements requires the Bank's management to make best estimates and reasonable assumptions that influence the assets and liabilities amounts, as well as the disclosure of contingent liabilities and receivables as of the date of preparation of the financial statements, and the income and expenses arising during the accounting period. These estimations and assumptions are based on information available to us, as of the date of preparation of the financial statements. However, the actual results may vary from these estimates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**3.1. Income and Expense Recognition**

Interest income and expense and other operating income and expenses are accounted for on an accrual basis. Fees and commissions earned on banking services, except income arising on loan origination, are recognized in full when earned.

Income from loan origination fees has been recognized on a proportional basis throughout the loan repayment period, which, in the opinion of the Bank's management, approximates the effective interest method. Pursuant to local regulations, fees charged based on loans are presented as a portion of fee and commission income and not as income from effective interest rate as required under IAS 18 "Revenues" and IAS 39 "Financial Instruments: Recognition and Measurement."

3.2. Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into BAM at the official exchange rates prevailing at the date of each transaction. Assets and liabilities denominated in foreign currencies are translated into BAM at the balance sheet date by applying the official rates of exchange in effect on that date. Contingent liabilities denominated in foreign currency are recalculated into BAM at the official exchange rate as of the balance sheet date. Foreign exchange gains or losses arising upon translation are credited or charged to the income statement, and are carried through profit and loss.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

*All amounts expressed in thousands of BAM, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.3. Equipment and Intangible Assets**

Equipment and intangible assets are carried at cost. Cost represents the prices billed by suppliers together with all costs incurred in bringing the asset to the location and condition necessary for its intended use.

Depreciation and amortization are calculated on a straight-line basis at the following prescribed, annual minimum rates in order to write off the assets over their estimated useful lives:

	<u>Depreciation and Amortization Rate</u>	<u>Useful Life (Years)</u>
Computer equipment	25%	4
Passenger vehicles	15.5%	6.5
Telephone exchange	7%-10%	10 – 14.3
Furniture	10%-12.5%	8 - 10
Intangible assets	20%	5

The Bank's management believes that the amortization and depreciation rates that have been applied fairly reflect the future consumption of economic benefits from fixed and intangible assets.

The depreciation and amortization of assets commences when the assets are available for use and placed on the location and in condition necessary for it to operate in a manner intended by the Bank's management.

If the cost of equipment is less than BAM 200, it treated as tools or fixtures and is fully written-off once placed into use.

3.4. Loans

Loans are stated in the balance sheet at the amount of principal outstanding.

3.5. Provisions for Potential Losses and Contingent Liabilities

Provision for potential losses and contingent liabilities is based upon the year-end evaluation of: loans, interest receivables, including the penalty interest on non-performing loans, fees and other receivables, risk-bearing assets, as well as on the exposure arising on contingent liabilities. These items are graded into categories according to their deemed recoverability, which is based on the level of overdue receivables, on an assessment of the borrower's financial position, and on the quality of any collateral secured. Provisions for potential losses and commitments are charged against income and are shown in the balance sheet as a liability within long-term provisions.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

*All amounts expressed in thousands of BAM, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.5. Provisions for Potential Losses and Contingent Liabilities (Continued)**

A general provision for potential losses was made for the “superior” receivables classified in “A” risk category. A specific provision was computed for items in the lower risk categories. The provision for potential losses at year-end is calculated by applying the following rates to the gross amount of the loans to customers:

<u>Credit rating</u>	<u>Mapping</u>	<u>% of provision</u>
Risk category A	Satisfactory risk	0% - 2%
Risk category B	Special-watch assets	5% - 15%
Risk category C	Substandard assets	16% - 40%
Risk category D	Doubtful assets	41% - 60%
Risk category E	Loss	100%

Risk category A (Satisfactory risk) includes exposures to debtors that are not likely to default in their payments, and exposures that are secured by first-class collateral. Financial assets in this category also include the exposures to the Central Bank.

Risk category B (Special-watch assets) includes exposures to debtors which repay their liabilities with delays not exceeding 90 days, and exposures to customers whose cash flows are believed by the Bank to be sufficient for timely settlement of obligations towards the Bank.

Risk category C (Substandard assets) includes exposures to debtors which repay their obligations with 91 to 180 days' delay. This category also includes the debtors assessed to have inadequate cash flows for timely settlement of liabilities, which have inadequate liquidity ratio, or debtors whose exposures have been rescheduled due to financial difficulties.

Risk category D (Doubtful assets) includes exposures to debtors that repay their obligations with 181 to 270 days of default. These debtors are illiquid and insolvent, and the Bank expects to collect through foreclosure of collaterals.

Risk category E (Loss) includes exposures to debtors which repay their obligations with over 271 days of default, or do not repay the obligations at all. These debtors are usually under bankruptcy or liquidation procedure, with bad collateral or without one. In accordance with the Regulations of the Banking Agency of the Republic of Srpska, all items included in this category are written-off from the balance sheet and are recorded as off-balance sheet items.

The applied provisioning rates are in compliance with the Banking Agency's Decision pertaining to the Minimum Standards for the Management of Bank Loan Risk Exposure and Categorization of Assets.

Uncollectible debts are written off based on a court decision, mutual agreements between the parties concerned or a decision enacted by the Supervisory Board.

3.6. Cash and Cash Equivalents

For purposes of the cash flow statement, cash and cash equivalents refer to cash and balances with the Central Bank of BiH, foreign currency accounts with foreign and domestic banks and time deposits with up to 30-day maturities held with foreign and domestic banks.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

*All amounts expressed in thousands of BAM, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.7. Income Taxes***Current Income Tax*

Current income tax is an amount computed and paid in accordance with the Income Tax Law, in effect as of January 1, 2007. Current income tax is the amount calculated by applying the 10 percent rate to the base reported in the tax balance being the amount of profit before taxation after allowing for the effects of income and expense reconciliation as provided by the Republic of Srpska tax rules. Such adjustments mostly relate to the following: adding back certain disallowed expenses, adding back the expenses for provisions for potential losses in excess of 20% of the adjusted tax base, as well as of deducting a portion of the total tax liability that is proportionate to the percentage of a foreign entity's participation in the tax paying entity's total share capital.

The tax regulations effective in the Republic of Srpska do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carryback period. However, any current year losses may be used to reduce or eliminate taxes to be paid in future periods, but only for a duration of no longer than five ensuing years.

Deferred Income Taxes

Deferred income tax is determined using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities components, and their carrying values in the consolidated financial statements. The currently-enacted tax rates at the balance sheet date are used to determine the deferred income tax amount. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for deductible temporary differences, and the tax effects of income tax losses and credits available for carry forward, to the extent that it is probable that future taxable profit will be available against which deferred tax assets may be utilized.

3.8. Employee Benefits

In accordance with the local regulatory requirements, the Bank is obligated to pay contributions to various state social security and retirement insurance funds in an amount computed by applying the specific, legally-prescribed rates. These contributions are charged to expenses of the period to which these relate.

In accordance with local regulations, upon retirement employees become entitled to retirement benefits in an amount equaling three monthly salaries which may not be below the three monthly salaries earned in the Republic of Srpska.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

*All amounts expressed in thousands of BAM, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.8. Employee Benefits (Continued)**

In the course of 2008, the Bank calculated, for the first time, the present value of accumulated employee entitlements to retirement benefits as of December 31, 2008. In the calculation of these benefits, the Bank relied upon the following assumptions: the discount rate of 5.5% annually, projected salary growth of 10% annually, years of service for regular retirement (40 years for men and 35 years for women), as well as other vesting conditions for retirement benefits.

3.9. Fair Value

The accompanying financial statements are prepared on a historical cost basis, including adjustments and provisions made to reduce assets to their estimated recoverable amounts.

It is the policy of the Bank to disclose the fair value information of those financial assets and financial liabilities for which published market information is readily and reliably available, and whose fair value is materially different from their recorded amounts.

Sufficient market experience, stability and liquidity do not exist for the purchase and sale of loans and other financial assets or liabilities, given that published market information is not readily available. Hence, fair value cannot reliably be determined. In management's opinion, the amounts stated in the financial statements represent the fair values, which in particular instances are the most valid and useful for reporting purposes.

4. INTEREST INCOME

	Year Ended December 31,	
	2009	2008
Interest charged to:		
- related banks	18	741
- Central Bank	58	327
- other banks	9	-
- foreign entities	490	343
- corporate customers	252	19
- retail customers	39	6
	866	1,436

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

*All amounts expressed in thousands of BAM, unless otherwise stated.***5. INTEREST EXPENSE**

	Year Ended December 31,	
	2009	2008
Interest charged by:		
- banks	13	-
- public sector	300	450
- corporate customers	14	3
- retail customers	25	17
	352	470
	352	470

6. FEE AND COMMISSION INCOME

	Year Ended December 31,	
	2009	2008
Fee and commission income from currency conversions	11	55
Fee and commission income arising from domestic payment transactions	60	28
Fees from issued guarantees and other contingent liabilities	26	5
Loan origination fees	35	8
	132	96
	132	96

7. FEE AND COMMISSION EXPENSE

	Year Ended December 31,	
	2009	2008
Fee and commission expenses from currency conversions	-	16
Fee and commission payable to the Central Bank for domestic payment transfers	19	15
Fee and commission expense arising from international payment transactions	7	9
Other fees and commissions	2	-
	28	40
	28	40

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

*All amounts expressed in thousands of BAM, unless otherwise stated.***8. OTHER OPERATING INCOME**

	Year Ended December 31,	
	2009	2008
Gross personal income	1,096	957
Other payables to employees	56	42
Professional trainings and education of employees	14	9
Materials and services	68	87
Business trip expenses incurred in the country and abroad	32	44
Telecommunications	72	82
Maintenance of fixed assets	68	21
Donations and sponsorships	23	93
Marketing and advertizing	22	109
Rental of premises	420	399
Software licenses	-	213
Membership fees	45	19
Entertainment	18	26
Security	80	71
Depreciation and amortization	192	84
Indirect taxes and contributions	7	18
Fees and commissions payable to the Banking Agency of the Republic of Srpska	48	48
Write-off of uncollectible receivables	3	-
Other	101	97
	<u>2,365</u>	<u>2,419</u>

9. PROVISIONS FOR POTENTIAL LOSSES**a.) Charge for the Year, Net**

	Year Ended December 31,	
	2009	2008
Due from other banks	1,216	151
Loans to customers	1,361	120
Accrued interest and other assets	9	-
Employee benefits	-	15
Contingent liabilities and commitments	5	5
	<u>2,591</u>	<u>291</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

*All amounts expressed in thousands of BAM, unless otherwise stated.***9. PROVISIONS FOR POTENTIAL LOSSES (Continued)****b.) Movements for the Year in the Long-Term Provisions for Potential Losses and Commitments**

						2009
	Due from Other Banks	Loans to Customers	Accrued Interest and Other Assets	Employee Benefits	Contingent Liabilities and Commitments	Total
Balance, January 1, 2009	151	120	2	15	5	293
Charge for the year	1,368	1,873	228	-	12	3,481
Reversal of provisions	(152)	(512)	(219)	-	(7)	(890)
Charge for the year, net	1,216	1,361	9	-	5	2,591
Write-off	-	(226)	-	-	-	(226)
Other	-	(10)	-	-	-	(10)
Balance, December 31, 2009	<u>1,367</u>	<u>1,245</u>	<u>11</u>	<u>15</u>	<u>10</u>	<u>2,648</u>

10. CASH AND BALANCES WITH THE CENTRAL BANK

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Cash on hand:		
- in BAM	164	150
- in foreign currencies	424	329
Gyro account with Komercijalna banka a.d., Banja Luka in BAM	10	10
Balances with the Central Bank in BAM:		
- Obligatory reserve	539	1,760
- Gyro account	<u>6,737</u>	<u>10,747</u>
	<u>7,874</u>	<u>12,996</u>

Pursuant to the Central Bank of Bosnia and Herzegovina's Reserve Requirement, the Bank is required to calculate and maintain an obligatory reserve of the average balance of the Bank's total deposits (which serve as basis for computing the obligatory reserve) according to the average balance found at the end of work days of ten calendar days preceding the projection. The obligatory reserve is calculated as the sum of 14% of the total deposits maturing within a year and 7% with over one year maturities. This reserve is available for liquidity purposes. The Central Bank accrues and pays interest at the rate of 0.5% to the amount of obligatory reserve, as well as the amount equal to the rate of return on the assets held by the BiH Central Bank with foreign banks into the Bank's gyro account.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

All amounts expressed in thousands of BAM, unless otherwise stated.

11. DUE FROM OTHER BANKS

	<u>Interest Rates</u>	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Foreign currency accounts with:			
- Related banks	0%	2	7,558
- Foreign banks	0.01%-4.3%	6,059	3,513
Short-term deposits with related banks			
	2.19%-7.2%	992	-
Short-term loans to domestic banks in local currency	1%	<u>3,500</u>	<u>-</u>
		<u>10,553</u>	<u>11,071</u>

At December 31, 2009, an amount of BAM 3,500 thousand represents a time deposit with Nova banka a.d., Banja Luka maturing within 30 days at an annual interest rate of 1%. The initial placement date is September 30, 2009 and the deposit is rescheduled each 30 days.

As of December 31, 2009, foreign accounts with foreign banks totaling BAM 6,059 thousand also include an amount of BAM 3,998 thousand which relates to sight deposits placed with Bank Petrovski, Sankt Petersburg, Russian Federation which was a member of the group of East-European Financial Corporation at December 31, 2008 and was the Bank's related party. Since the Bank's request from Bank Petrovski to repay the funds into the Bank's account was not responded to, on August 21, 2009, the Bank filed arbitration proceedings before the Arbitration Court in Sankt Petersburg, Russian Federation. Based on the aforementioned, the Bank's use of these funds is limited.

Short-term deposits with related banks amounted to BAM 992 thousand and a foreign currency account with related banks in the amount of BAM 2 thousand and completely pertain to funds held with Petro Aero Bank, Sankt Petersburg, Russian Federation. On June 9, 2009, the Arbitration Court in Sankt Petersburg instituted a liquidation procedure in the subject bank. The Liquidation Administrator – Petro Aero Bank accepted these receivables and included the Bank into the group of creditors in liquidation. Based on the above, the Bank's use of these funds is limited.

As of December 31, 2009, provisions for potential losses contingent on funds held with other banks amounted to BAM 1,367 thousand (December 31, 2008: BAM 151 thousand, Note 9).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

All amounts expressed in thousands of BAM, unless otherwise stated.

12. LOANS TO CUSTOMERS

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Short-term loans:		
- in BAM	1,059	869
- in foreign currency	2,934	4,890
Long-term loans in BAM	920	171
Current portion of long-term loans in BAM	<u>556</u>	<u>43</u>
	<u>5,469</u>	<u>5,973</u>

As of December 31, 2009, short-term loans denominated in foreign currency placed with foreign customers amounted to BAM 2,934 thousand (December 31, 2008: BAM 4,890 thousand) and consisted of 3 loans which matured on September 30, 2009 at an annual interest rate of 9%. As collateral against the aforementioned placements the Bank received guarantees from Bank Petrovski, Sankt Petersburg, Russian Federation covering these placements in full, which are now denied by this bank.

As of December 31, 2009, provisions for potential losses contingent on loans placed with customers amounted to BAM 1,245 thousand (December 31, 2008: BAM 120 thousand, Note 9).

13. EQUIPMENT AND INTANGIBLE ASSETS

	<u>Equipment</u>	<u>Intangible Assets</u>	<u>2009 Total</u>
Cost			
Balance, January 1, 2009	610	56	666
Additions	8	437	445
Balance, December 31, 2009	<u>618</u>	<u>493</u>	<u>1,111</u>
Accumulated Depreciation and Amortization			
Balance, January 1, 2009	97	5	102
Charge for the year	101	91	192
Balance, December 31, 2009	<u>198</u>	<u>96</u>	<u>294</u>
Net book value:			
December 31, 2009	<u>420</u>	<u>397</u>	<u>817</u>
December 31, 2008	<u>513</u>	<u>51</u>	<u>564</u>

As of December 31, 2009, the increase in intangible assets of BAM 437 thousand included an amount of BAM 434 thousand relating to the software application used to support banking operations purchased from the firm IBIS d.o.o., Banja Luka.

As of December 31, 2009, equipment was insured against general risks.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

*All amounts expressed in thousands of BAM, unless otherwise stated.***14. ACCRUED INTEREST AND OTHER ASSETS**

	<u>December 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
In BAM:		
- Interest receivable	8	20
- Fee and commission receivable	2	1
- Advances paid	32	11
- Other receivables	2	5
- Deferred receivables for interest accrued	8	18
- Deferred other expenses	8	6
	<u>60</u>	<u>61</u>
In foreign currencies:		
- Interest receivable	-	7
- Fee and commission receivable	-	4
- Deferred interest receivables	8	-
	<u>8</u>	<u>11</u>
	<u>68</u>	<u>72</u>

At December 31, 2009, provisions for potential losses contingent on accrued interest and other assets amounted to BAM 11 thousand (December 31, 2008: BAM 2 thousand, Note 9).

15. BANK DEPOSITS

Bank deposits of BAM 3,500 thousand relates to deposit indexed to a foreign currency placed with Nova banka a.d., Banja Luka with original maturity of 30 days, bearing interest rate of 1.5% annually. It was initially placed on September 30, 2009 and it is rolled each 30 days.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

All amounts expressed in thousands of BAM, unless otherwise stated.

16. DUE TO CUSTOMERS

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Demand deposits in BAM:		
- Corporate customers	885	1,060
- Foreign entities	3	-
- Retail customers	152	60
- Other customers	5	1
	<u>1,045</u>	<u>1,121</u>
Demand deposits in foreign currencies:		
- Corporate customers	1	46
- Foreign entities	29	58
- Retail customers	61	74
	<u>91</u>	<u>178</u>
Short-term deposits in BAM:		
- Corporate customers	500	-
- State institutions	-	10,600
- Retail customers	33	20
	<u>533</u>	<u>10,620</u>
Short-term deposits in foreign currencies:		
- Retail customers	106	181
	<u>106</u>	<u>181</u>
Long-term deposits in BAM:		
- Retail customers	26	16
	<u>26</u>	<u>16</u>
Long-term deposits in foreign currencies:		
- State institutions	3,000	-
- Retail customers	288	361
	<u>3,288</u>	<u>361</u>
	<u>5,089</u>	<u>12,477</u>

Demand deposits from individuals and legal entities in BAM, EUR and RUB bear interest of 0.30% annually, whereas demand deposits in all other currencies bear annual interest rate of 0.25%.

Long-term deposits in foreign currency from state institutions represent a deposit from the Republic of Srpska Ministry of Finance placed for a period of 390 days at an interest rate of 3.74% charged annually.

Long-term foreign currency deposits of retail customers have been placed at interest rates ranging from 5% to 6.4% annually.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

All amounts expressed in thousands of BAM, unless otherwise stated.

17. OTHER LIABILITIES

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
In BAM:		
- matured interest payable	2	-
- deferred interest payables	1	47
- accounts payable	27	29
- advances received	6	3
- other liabilities	2	3
- deferred income	22	17
	<u>60</u>	<u>99</u>
In foreign currencies:		
- deferred interest payables	10	14
	<u>10</u>	<u>14</u>
	<u><u>70</u></u>	<u><u>113</u></u>

18. SHARE CAPITAL

The share capital of the Bank was created from the initial shareholders' investments. Initial capital consists of cash only and amounts to BAM 20,000 thousand.

As of December 31, 2009, the Bank's share capital was comprised of 200,000 shares with the par value of BAM 100.

The Bank's ownership structure as registered with the Central Registry of Securities of the Republic of Srpska at December 31, 2009 and December 31, 2008 was as follows:

	<u>Number of Shares</u>	<u>In Thousands of BAM</u>	<u>%</u>
EAST-EUROPEAN FINANCE CORPORATION, St. Petersburg, Russian Federation	198,000	19,800	99.00
Giteljson Aleksandr Vladimirovič	2,000	200	1.00
	<u><u>200,000</u></u>	<u><u>20,000</u></u>	<u><u>100.00</u></u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

*All amounts expressed in thousands of BAM, unless otherwise stated.***18. SHARE CAPITAL (Continued)***New Share Issue of the Bank*

On October 16, 2009, the Bank's Shareholder Assembly enacted a Decision on the second share issue in a public offering. On October 28, 2009, the Republic of Srpska Banking Agency made a Decision number 03-1177-3/09 approving the aforementioned second share issue via public offering. The total share issue was divided into 83,392 shares of A class, having an individual par value of BAM 100. The shares should be paid in cash into the Bank's special gyro account. The deadline for subscription and payment of shares from the second issue is 90 days starting from December 30, 2009. Until the issuance of these financial statements no shares had been subscribed or payments received thereof.

Non-Compliance of the Bank's Capital with the Republic of Srpska Law on Banks

The Bank is obligated to maintain the capital adequacy ratio of 12% as established by the Republic of Srpska Banking Agency pursuant to the Basel Accord. As of December 31, 2009, the capital adequacy ratio was 110.4%.

As in accordance with Article 22 of the Republic of Srpska Law on Banks, the minimum amount of paid in founding capital in cash and the minimum amount of the Bank's net paid in capital in cash which the Bank needs to maintain must at all times be above BAM 15,000 thousand. As of December 31, 2009, the Bank's net capital amounted to BAM 13,191 thousand. Based on Article 19 of the Republic of Srpska Law on Banks, the Banking Agency may issue a Decision on the cancellation of the Bank's operating license in case the amount of its equity and reserves are below the legally prescribed limits.

Plan to Overcome the Current State of Affairs in the Bank

According to the analysis of the Bank's management, the accumulated losses incurred as of December 31, 2009 in the total amount of BAM 6,526 thousand are due to poorly developed Bank's operations, and are a consequence of unfavorable events in the Russian Federation related to the business operations of certain related banks and blockage of accounts held with those banks.

Based on the Plan for Overcoming the Current State of Affairs in the Bank, the basic precondition is the successfulness of the second share issue by way of which long-term sources of financing would be obtained for the purpose of realizing the Bank's strategic goals, and the Bank would comply with the legal requirements. The condition for overcoming the current state of affairs in the Bank is defreeze and recovery of funds held with Bank Petrovski and Petro Aero Bank aggregating to BAM 4,992 thousand (Note 11), and collection of loans in the Cyprus enterprises totaling BAM 2,934 thousand (Note 12). Also, this Plan comprises objectives defined in the Bank's Strategic Plan including the establishment of organizational units of the Bank in Prijedor and Bijeljina, taking and strengthening its market share through a vigorous marketing campaign, introduction of new products and presenting its competitiveness.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

*All amounts expressed in thousands of BAM, unless otherwise stated.***19. CONTINGENT LIABILITIES AND COMMITMENTS****a) Payment guarantees and performance bonds and other irrevocable commitments**

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Payment guarantees	507	260
Performance bonds	<u>30</u>	<u>14</u>
	<u>537</u>	<u>274</u>

As of December 31, 2009, provisions for potential losses contingent upon off-balance sheet items amounted to BAM 10 thousand (December 31, 2008: BAM 5 thousand).

b) Regulatory Compliance

The Bank is required to perform its activities in compliance with the Republic of Srpska Accounting Regulations, and with the Regulations prescribed by the Republic of Srpska Banking Agency, serving as the supervisory body of the banking sector in the Republic of Srpska.

As of December 31, 2009, the following ratios prescribed by the Banking Agency of the Republic of Srpska were not within the prescribed limits:

- The deposits received from a single source made more than 20% of the Bank's total daily deposits. As of December 31, 2009, the deposit placed by Nova banka a.d., Banja Luka amounted to 41% of the total daily deposits of the Bank, while the deposit made by the Ministry of Finance of the Republic of Srpska amounted to 35% of the total daily deposits of the Bank;
- The minimum amount of paid in founding capital in cash and the minimum amount of the Bank's net paid in capital in cash which the Bank needs to maintain must at all times be above BAM 15,000 thousand. As of December 31, 2009, the Bank's net capital amounted to BAM 13,191 thousand (Note 18).

The Law on Banks of the Republic of Srpska sets forth that the Banking Agency of the Republic of Srpska individually determines measures applied in the instances of departures from the established regulations and provisions. The RS Banking Agency may undertake one or several measures towards the Bank, members of its Supervisory Board, management, Bank's employees, persons with significant ownership interest in the Bank and related parties, which include the delivery of a written warning, issuance of a written order demanding that the Bank adheres to the regulation prescribed by the RS Banking Agency, the issuance of a written order aiming to impose special requirements for prudent operations, cash penalties and other measures.

c) Litigation

At December 31, 2009, there were no legal suits filed against the Bank.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

*All amounts expressed in thousands of BAM, unless otherwise stated.***20. TAXATION RISKS**

The Republic of Srpska and Bosnia and Herzegovina currently have several tax laws in effect, as imposed by various governmental agencies. The applicable taxes include: a turnover tax, corporate tax, and payroll (social) taxes, among others. Following their introduction, the regulations governing these taxes were not enforced for substantial periods of time; in contrast to similar legislation in more developed market economies. Moreover, the regulations defining the implementation of these laws are often unclear or non-existent. Hence, few precedents with regard to tax issues have been established in the Republic of Srpska. Often, contrary opinions pertaining to legal interpretations exist both among, and within, governmental ministries and organizations, thusly creating uncertainties and areas of legal contention. Tax returns, together with other legal compliance matters (e.g., customs and currency control matters) are subject to the review and investigation by a number of authorities that are legally enabled to impose extremely severe fines, penalties and interest charges.

The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Company may not coincide with that of the management. As a result, transactions may be challenged by tax authorities and the Company may be assessed additional taxes, penalties and interest, which can be significant. In accordance with the Law on Tax Authority of the Republic of Srpska, expiration period of the tax liability is five years. This practically means that tax authorities could determine payment of outstanding liabilities in the period of five years from the origination of the liability. The afore-described situation creates tax risks in the Republic of Srpska and Bosnia and Herzegovina that are substantially more significant than those typically existing in countries with more developed tax systems.

21. RELATED PARTY TRANSACTIONS

	December 31, 2009	December 31, 2008
Assets:		
Funds held on the account with:		
- Bank Petrovski, Sankt Petersburg, Russian Federation	-	3,974
- Petro Aero Bank Sankt Petersburg, Russian Federation	994	3,584
	<u>994</u>	<u>7,558</u>
Interest accrued on funds held with Petro Aero Bank Sankt Petersburg, Russian Federation	8	-
Receivables from loans approved to the Bank's management and employees	85	-
	<u>93</u>	<u>-</u>
	<u>1,087</u>	<u>7,558</u>
Liabilities:		
Transaction accounts of the Bank's management	6	-
	<u>6</u>	<u>-</u>
Assets, net	<u>1,081</u>	<u>7,558</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

All amounts expressed in thousands of BAM, unless otherwise stated.

21. RELATED PARTY TRANSACTIONS (Continued)

	Year Ended December 31,	
	2009	2008
Income		
Interest income from related banks:		
- Petro Aero Bank Sankt Petersburg, Russian Federation	18	316
- Bank Petrovski, Sankt Petersburg, Russian Federation	-	338
- Inkas Bank Sankt Petersburg, Russian Federation	-	87
	<u>18</u>	<u>741</u>
Interest charged to the members of the Bank's Supervisory Board and management	6	-
	<u>24</u>	<u>741</u>
Expenses		
Remunerations to the members of the Supervisory Board and Bank's management	(261)	(42)
	<u>(237)</u>	<u>699</u>
(Expenses)/income, net	<u>(237)</u>	<u>699</u>

At December 31, 2008, Bank Petrovski, Sankt Petersburg was a member of the group East-European Finance Corporation and it operated under the name of Bank VEFK. Pursuant to the Decision issued by the Russian Bank on February 19, 2009 the shareholder structure changed according to which East-European Finance Corporation was no longer the shareholder in this bank. Based on the above, at December 31, 2009, Bank Petrovski was not the Bank's a related party.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

*All amounts expressed in thousands of BAM, unless otherwise stated.***22. MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

The table below provides an analysis of asset and liability components classified into their relevant maturity rankings, based on the remaining period from the balance sheet date to the contractual maturity date. The maturities of assets and liabilities, as well as the option to reschedule interest-bearing liabilities as they mature at an acceptable cost, are important factors in assessing the liquidity level of the Bank, and its exposure to movements in interest and exchange rates. The remaining maturities of assets and liabilities as of December 31, 2009 are as follows:

	December 31, 2009				Total
	Up to One Month	From 1 to 3 Months	From 3 to 12 Months	Over 1 Year	
ASSETS					
Cash and balances with Central Bank and other banks	7,874	-	-	-	7,874
Due from other banks	10,553	-	-	-	10,553
Loans to customers	3,489	297	764	919	5,469
Equipment and intangible assets	-	-	-	817	817
Accrued interest and other assets	60	5	3	-	68
Total assets	21,976	302	767	1,736	24,781
LIABILITIES					
Deposits	4,710	541	121	3,217	8,589
Other liabilities	62	2	4	2	70
Provisions for potential losses	-	-	-	2,648	2,648
Total liabilities	4,772	543	125	5,867	11,307
Liquidity gap	17,204	(241)	642	(4,131)	13,474
As of December 31, 2008					
Total assets	25,128	1	4,768	779	30,676
Total liabilities	10,960	1,507	328	88	12,883
Liquidity gap	14,168	(1,506)	4,440	691	17,793

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

*All amounts expressed in thousands of BAM, unless otherwise stated.***23. INTEREST RATE RISK**

The Bank is exposed to various risks associated with the effects of movements in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarizes interest bearing and non-interest bearing assets and liabilities as of December 31, 2009:

	December 31, 2009		
	Interest- Bearing Items	Non-Interest Bearing Items	Total
ASSETS			
Cash and balances with the Central Bank	7,286	588	7,874
Due from other banks	6,553	4,000	10,553
Loans to customers	5,469	-	5,469
Equipment and intangible assets	-	817	817
Accrued interest and other assets	68	-	68
Total Assets	19,376	5,405	24,781
LIABILITIES			
Due to customers	8,589	-	8,589
Other liabilities	70	-	70
Provisions for potential losses	-	2,648	2,648
Total Liabilities	8,659	2,648	11,307
Net interest sensitivity gap:			
- December 31, 2009	<u>10,717</u>	<u>2,757</u>	<u>13,474</u>
- December 31, 2008	<u>9,557</u>	<u>8,236</u>	<u>17,793</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

*All amounts expressed in thousands of BAM, unless otherwise stated.***23. INTEREST RATE RISK (Continued)**

The following table presents annual interest rates per most significant positions of Bank's financial assets and liabilities:

	<u>In Foreign Currency</u>	<u>In Local Currency</u>
Assets		
Obligatory reserve with the Central Bank	-	0.5%
Funds exceeding obligatory reserve with the Central Bank	-	0.24%
Foreign currency accounts with related banks	-	0%
Foreign currency accounts with foreign banks	-	0%
Time deposits with foreign banks	-	12%
Short-term loans to customers:		
- corporate customers	-	8.2%-14%
- retail customers	-	7.6%-12%
Overdrafts per accounts		
- corporate customers	-	9%-12%
- retail customers	-	9.5%-12%
Short-term loans to customers:		
- corporate customers	-	9%-12%
- retail customers	-	7%-10.95%
Liabilities		
Demand deposits		
- corporate customers	-	0.25%-0.3%
- retail customers	-	0.25%-0.3%
Short-term deposits:		
- state institutions	-	1.5%-5.2%
- corporate customers	-	2.8%-3.6%
- retail customers	2.1%-5.75%	2.8%-5%
Long-term deposits:		
- state institutions	3.74%-6%	-
- retail customers	5%-6.4%	5%-5.6%

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

*All amounts expressed in thousands of BAM, unless otherwise stated.***24. CURRENCY RISK**

The analysis of assets and liabilities denominated in foreign currencies as of December 31, 2009, per separate currencies, was as follows:

	December 31, 2009					
	<u>EUR</u>	<u>USD</u>	<u>Other Currencies</u>	<u>Total Balance In Currency</u>	<u>Local Currencies</u>	<u>Total</u>
ASSETS						
Cash and balances with Central Bank and other banks	300	13	111	424	7,450	7,874
Due from other banks	6,244	788	21	7,053	3,500	10,553
Loans to customers	2,934	-	-	2,934	2,535	5,469
Equipment and intangible assets	-	-	-	-	817	817
Accrued interest and other assets	22	-	1	23	45	68
Total assets	<u>9,500</u>	<u>801</u>	<u>133</u>	<u>10,434</u>	<u>14,347</u>	<u>24,781</u>
LIABILITIES						
Due to customers	3,431	40	14	3,485	5,104	8,589
Other liabilities	13	-	1	14	56	70
Provisions for potential losses	-	-	-	-	2,648	2,648
Total liabilities	<u>3,444</u>	<u>40</u>	<u>15</u>	<u>3,499</u>	<u>7,808</u>	<u>11,307</u>
Net currency exposure	<u>6,056</u>	<u>761</u>	<u>118</u>	<u>6,935</u>	<u>6,539</u>	<u>13,474</u>
As of December 31, 2008						
Total assets	15,376	825	74	16,275	14,401	30,676
Total liabilities	10,979	63	21	11,063	1,820	12,883
Net currency exposure	<u>4,397</u>	<u>762</u>	<u>53</u>	<u>5,212</u>	<u>12,581</u>	<u>17,793</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

*All amounts expressed in thousands of BAM, unless otherwise stated.***25. CURRENT ECONOMIC SITUATION AND ITS IMPACT ON THE BANK'S OPERATIONS**

As expected, during 2009 the Bank's operations were under the impact of the global economic and financial crisis. In the course of 2009, when the negative effects of the global economic crisis had strengthened in the domestic economy, the Bank did not face any liquidity problems.

So far, the ongoing financial crisis has had a limited impact on the financial position and performance of the Bank, mainly due to the internal risk management policies and regulatory restrictions. The Bank has adopted new policies on credit approvals, collateral acceptance and evaluation policies and the treasury operations. The Bank monitors closely the credit, liquidity, interest rate and foreign exchange risks on a regular basis. The management expects that the planned share issue will resolve the matter of capital adequacy. It is expected that liquidity will remain at the satisfactory level.

The deteriorating economic situation in the country will probably impact the position of certain industries and the abilities of some clients to meet their loan obligations. This may consequently influence the amount of the Bank's provisions for impairment losses in 2010 and other areas that require estimates to be made by management, including the valuation of collateral and of securities. The 2009 financial statements contain significant estimates with respect to impairment charges, collateral valuation and the fair value of securities. Actual results may differ from these estimates. The key priorities of the Bank in 2010 will be attention to the management of the financial portfolio adjusting to the changing economic environment.

26. EXCHANGE RATES

The official exchange rates for major currencies used in the translation of balance sheet components denominated in foreign currencies into BAM as of December 31, 2009 were as follows:

	December 31, 2009	In BAM December 31, 2008
USD	1.3641	1.3873
CHF	1.3146	1.3071
RUB	0.0450	0.0472
EUR	1.9558	1.9558