

**IEFK BANKA A.D., BANJA LUKA**

**Financial Statements  
For the Year Ended  
December 31, 2008 and  
Independent Auditors' Report**

**CONTENTS**

	<b>Page</b>
Independent Auditors' Report	1-2
Income Statement	3
Balance Sheet	4
Statement of Changes in Equity	5
Cash Flow Statement	6
Notes to the Financial Statements	7 – 25

*This is an English Translation of Independent Auditors' Report and Financial Statements  
Issued in the Serbian language*

## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements (pages 3 to 25) of IEFK banka a.d., Banja Luka (the "Bank"), which comprise the balance sheet as of December 31, 2008 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*

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.

#### *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 International Standards on Auditing, Law on Accounting and Auditing of the Republic of Srpska and the Rules on the Audit of Financial Statements. 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.

(Continued)

*This is an English Translation of Independent Auditors' Report and Financial Statements  
Issued in the Serbian language*

**INDEPENDENT AUDITORS' REPORT**

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects the financial position of IEFK banka a.d., Banja Luka as of December 31, 2008, and its financial performance, changes in equity and its cash flows for the year then ended, in accordance with the accounting standards of the Republic of Srpska, and the accounting policies disclosed in Notes 2 and 3 to the financial statements.

*Emphasis of Matter*

Without qualifying our opinion, 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 18b, as of December 31, 2008, two business ratios were not within the prescribed limits.

February 4, 2009

Certified Auditor  
Žarko Mionić

**INCOME STATEMENT**  
**Year Ended December 31, 2008**  
**(Thousands of CM)**

	<b>Notes</b>	<b>2008</b>	<b>Period from June 12 through December 31, 2007</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Interest income	3.1, 4	1,436	497
Interest expense	3.1, 5	<u>(470)</u>	<u>(2)</u>
<b>Net interest income</b>		<u>966</u>	<u>495</u>
Fee and commission income	3.1, 6	96	2
Fee and commission expense	3.1, 7	<u>(40)</u>	<u>(7)</u>
<b>Net fee and commission expense</b>		<u>56</u>	<u>(5)</u>
Other operating income		3	-
Other operating expenses	8	(2,419)	(979)
Foreign exchange losses, net	3.2	(27)	(4)
Provisions for potential losses, net	3.5, 15	<u>(291)</u>	<u>(2)</u>
<b>Loss from operations before tax</b>		(1,712)	(495)
Income taxes	3.7	<u>-</u>	<u>-</u>
<b>Loss for the year/period</b>		<u><u>(1,712)</u></u>	<u><u>(495)</u></u>

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

These financial statements were adopted by the Bank's management and forwarded to the Supervisory Board for further adoption on January 26, 2009.

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

Nebojša Dželebdžić  
Director

Ankica Mirnić  
Director of Finance and  
Accounting Department

**BALANCE SHEET**  
**As of December 31, 2008**  
**(Thousands of CM)**

	<u>Notes</u>	<u>December 31,</u> <u>2007</u>	<u>December 31,</u> <u>2007</u>
<b>ASSETS</b>			
Cash and balances with the Central Bank	9	12,996	19,136
Due from other banks	10	11,071	5,301
Loans to customers	3.4, 11	5,973	1
Equipment and intangible assets	3.3, 12	564	333
Accrued interest and other assets	13	72	35
<b>Total assets</b>		<u>30,676</u>	<u>24,806</u>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to customers	14	12,477	5,228
Other liabilities	15	113	71
Provisions for potential losses	16	293	2
<b>Total Liabilities</b>		<u>12,883</u>	<u>5,301</u>
<b>EQUITY</b>			
Share capital	17	20,000	20,000
Accumulated losses		<u>(2,207)</u>	<u>(495)</u>
<b>Total equity</b>		<u>17,793</u>	<u>19,505</u>
<b>Total liabilities and equity</b>		<u>30,676</u>	<u>24,806</u>
<b>CONTINGENT LIABILITIES AND COMMITMENTS</b>			
	18	<u>274</u>	<u>-</u>

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

**STATEMENT OF CHANGES IN EQUITY**  
**For the Year Ended December 31, 2008**  
(Thousands of CM)

	<u>Share Capital</u>	<u>Accumulated Losses</u>	<u>Total</u>
Balance, June 12, 2007	20,000	-	20,000
Loss for the period	-	(495)	(495)
Balance, December 31, 2007	<u>20,000</u>	<u>(495)</u>	<u>19,505</u>
Balance, January 1, 2008	20,000	(495)	19,505
Loss for the year	-	(1,712)	(1,712)
Balance, December 31, 2008	<u><u>20,000</u></u>	<u><u>(2,207)</u></u>	<u><u>17,793</u></u>

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

**CASH FLOW STATEMENT**  
**Year Ended December 31, 2008**  
**(Thousands of CM)**

	<b>2007</b>	<b>Period from June 12 through December 31, 2007</b>
<b>Cash flows from operating activities</b>		
Interest receipts	1,417	471
Interest paid	(457)	-
Fee and commission receipts	92	2
Fee and commission paid	(36)	-
Payments to employees and suppliers	(2,378)	(938)
<b>Operating loss prior to changes in operating assets and liabilities</b>	<u>(1,363)</u>	<u>(465)</u>
<b>Changes in operating assets and liabilities</b>		
Net increase in loans to customers	(5,972)	(1)
Net increase in other assets	(12)	(10)
Net increase in amounts due to customers	7,249	5,228
Net increase in other liabilities	43	20
<i>Net cash flows from operating activities</i>	<u>(55)</u>	<u>5,237</u>
<b>Cash flows from investing activities</b>		
Purchase of fixed assets	(315)	(331)
<i>Net inflows from investing activities</i>	<u>(315)</u>	<u>(331)</u>
<b>Cash flows from financing activities</b>		
Payments of shareholders	-	20,000
<i>Net cash flows from financing activities</i>	<u>-</u>	<u>20,000</u>
Foreign exchange gains and losses	-	(4)
<b>Net (decrease) / increase in cash and cash equivalents</b>	(370)	24,437
<b>Cash and cash equivalents, beginning of year</b>	<u>24,437</u>	<u>-</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>24,067</u></u>	<u><u>24,437</u></u>
<b>Cash and cash equivalents comprise the following positions:</b>		
Cash and balances with the Central Bank	12,996	19,136
Due from other banks	11,071	5,301
	<u><u>24,067</u></u>	<u><u>24,437</u></u>

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



**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2008**

*All amounts expressed in thousands of CM, unless otherwise stated.*

**1. BANK'S ESTABLISHMENT AND OPERATING POLICY**

IEFK Banka a.d., Banja Luka was established on June 12, 2007 and was duly entered in the Court Register pursuant to 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 "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, 2008, 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, 2008, the Bank had 30 employees (December 31, 2007: 13 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 in the Republic of Srpska.

Pursuant to the provisions of the Law on Accounting and Auditing of the Republic of Srpska (Official Gazette of RS numbered 67/05), all legal entities situated on the territory of the Republic of Srpska are under an obligation to prepare financial statements, and fully apply International Financial Reporting Standards (IFRS), previously known as International Accounting Standards (IAS) applicable as of December 31, 2005, as well as International Standards on Auditing (ISA), Code of Ethics for Professional Accountants and the accompanying pronouncements, interpretations and guidelines of the International Federation of Accountants (IFAC) as of the period commencing on or after January 1, 2006.

The amendments to IAS and to the newly-issued IFRS released after the adoption of the Law on Accounting and Auditing of the Republic of Srpska (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, 2008

*All amounts expressed in thousands of CM, 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 estimates 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 be determined, if the allowances for impairment of financial instruments were estimated based on discounted expected future cash flows by 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;
- Long-term provision for potential losses and commitments consists of provisions against bad loans, as well as interest and fee receivables 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 define 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 the impaired assets in its accounting records, and the accruals of the interest amounts due are booked on its off-balance sheet records, up to the moment in which 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;
- 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, 2008***All amounts expressed in thousands of CM, 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 effect which the above-mentioned departures may have upon the fairness of the Bank’s financial statements for 2008, they cannot be treated as financial statements 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 (CM) 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.

**2.2. Comparative Data**

As comparative data, the Bank provided the income statement, statement of changes in equity and cash flow statement for the period from June 12 through December 31, 2007, as well as the balance sheet as of December 31, 2007.

**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 approximates the effective interest rate method.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts expressed in thousands of CM, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.2. Foreign Exchange Translation**

Transactions denominated in foreign currencies are translated into CM at the official exchange rates prevailing at the date of each transaction.

Assets and liabilities denominated in foreign currencies are translated into CM at the balance sheet date by applying the official rates of exchange in effect on that date.

Foreign exchange gains or losses arising upon translation are credited or charged to the income statement, and are included within net trading income.

**3.3. Equipment**

Equipment is 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 is 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:

	<b>Depreciation Rate</b>	<b>Useful Life (Years)</b>
Computer equipment	25%	4
Passenger vehicles	15.5%	6.5
Telephone exchange	7%-10%	10 – 14.2
Furniture	11%-12.5%	8 - 9

The Bank's management believes that the amortization and depreciation rates that have been applied fairly reflect the economic useful life of the fixed assets.

The depreciation of equipment commence on the date upon which such assets have been placed into service.

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

**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**

The 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.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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

The Bank's Supervisory Board adopted a Program for Minimum Standards for the Management of Bank Loan Risk Exposure and Categorization of Assets whereby a general provision for potential losses was made for the "superior" receivables 2 percent, whereas a specific provision was computed for other receivables by applying the following prescribed rates: special-watch assets – in the range of from 5 to 15 percent, sub-standard assets – in the range of from 16 to 40 percent, doubtful assets – in the range of from 41 to 60 percent and loss – 100 percent. 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, balances with the Central Bank, foreign currency accounts with foreign and domestic banks and time deposits with up to 30-day maturities held with foreign and domestic banks are all considered to be cash equivalents.

**3.7. Income Taxes*****Current Income Tax***

Current income tax is an amount computed and paid in accordance with the Income Tax Law ("Official Gazette of the Republic of Srpska," number 91/06), in effect as of January 1, 2007. A final statutory income tax of 10 percent is payable on the taxable income reported by the taxpaying entity in its annual corporate income tax returns. The taxable income reported in the tax returns includes the profit shown in the statutory statement of income and any adjustments for permanent differences made thereto, as defined under the Republic of Srpska Tax Law. The income tax amount may be decreased by certain tax facilities based on investments in machines and equipment used in the regular course of business as envisaged under the effective income tax regulations, until December 31, 2008.

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.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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

In accordance with regulatory requirements, the Bank is obligated to pay contributions to tax authorities and to various state social security funds, which guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in an amount computed by applying the specific, legally-prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to government funds. These taxes and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

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.

**4. INTEREST INCOME**

	<b>Thousands of CM</b>	
	<b>Period from June</b>	
	<b>12 through</b>	
	<b>December 31, 2007</b>	
	<b>2008</b>	
Due from related banks	741	235
Assets held with the Central Bank	327	176
Due from other banks	-	86
Due from foreign entities	343	-
Due from corporate customers	19	-
Due from retail customers	6	-
	<u>1,436</u>	<u>497</u>

Most significant interest income was realized based on the short-term deposits placed with the related banks Bank EEFC St. Petersburg, PETRO-AERO Bank St. Petersburg, the Russian Federation and INKAS Bank St. Petersburg, the Russian Federation at an annual interest rate ranging from 4% to 7.2%.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts expressed in thousands of CM, unless otherwise stated.*

## 5. INTEREST EXPENSE

	Thousands of CM	
	2008	Period from June 12 through December 31, 2007
Due to public sector	450	2
Due to corporate customers	3	-
Due to retail customers	17	-
	<u>470</u>	<u>2</u>

## 6. FEE AND COMMISSION INCOME

	Thousands of CM	
	2008	Period from June 12 through December 31, 2007
Fee and commission income from currency conversions	55	-
Fee and commission income arising from domestic payment transactions	28	1
Fees from issued guarantees and other contingent liabilities	5	-
Loan origination fees	8	-
Other fees and commissions	-	1
	<u>96</u>	<u>2</u>

## 7. FEE AND COMMISSION EXPENSE

	Thousands of CM	
	2008	Period from June 12 through December 31, 2007
Fee and commission expenses from currency conversions	16	-
Fee and commission payable to the Central Bank for domestic payment transfers	15	-
Fee and commission expense arising from international payment transactions	9	4
Other fees and commissions	-	3
	<u>40</u>	<u>7</u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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

	Thousands of CM	
	2008	Period from June 12 through December 31, 2007
Gross personal income	957	356
Other payables to employees	42	22
Professional trainings and education of employees	9	41
Materials and services	87	63
Business trip expenses incurred in the country and abroad	44	36
Telecommunications	82	40
Donations and sponsorships	93	-
Maintenance of fixed assets	21	-
Marketing and advertizing	109	11
Rental of premises	399	159
Software licenses	213	93
Membership fees	19	48
Entertainment	26	26
Security	71	35
Depreciation and amortization	84	18
Taxes payable	18	-
Fees and commissions payable to the Banking Agency of the Republic of Srpska	48	-
Other	97	31
	<u>2,419</u>	<u>979</u>

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

	Thousands of CM	
	2008	Period from June 12 through December 31, 2007
Due from other banks	151	-
Loans to customers	120	-
Accrued interest and other assets	-	2
Employee benefits	15	-
Contingent liabilities and commitments	5	-
	<u>291</u>	<u>2</u>



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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

	Thousands of CM					Total
	Due from Other Banks	Loans to Customers	Accrued Interest and Other Assets	Employee Benefits	Contingent Liabilities and Commitments	
Balance, January 1, 2008	-	-	2	-	-	2
Charge for the year, net (note 9a)	151	120	-	15	5	291
Balance, December 31, 2008	151	120	2	15	5	293

**10. CASH AND BALANCES WITH THE CENTRAL BANK**

	Thousands of CM	
	December 31, 2008	December 31, 2007
Cash on hand:		
- in CM	150	70
- in foreign currencies	329	86
Gyro account with Komercijalna banka a.d., Banja Luka in CM	10	10
Balances with the Central Bank in CM:		
- Obligatory reserve	1,760	34
- Gyro account	10,747	18,936
	12,996	19,136

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 and borrowings (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 rate of obligatory reserve as applied by the Central Bank of Bosnia and Herzegovina totals 14%. This reserve is available for liquidity purposes. The Central Bank compensates the amount of the obligatory reserve in the manner specified under the aforementioned Requirement.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts expressed in thousands of CM, unless otherwise stated.*

## 11. DUE FROM OTHER BANKS

	<u>Interest Rates</u>	<u>Thousands of CM</u>	
		<u>December 31, 2008</u>	<u>December 31, 2007</u>
Foreign currency accounts with:			
- Domestic banks	0%	7,558	73
- Foreign banks	0.01% - 4.3%	3,513	729
Short-term deposits with foreign banks	2.19% - 7.2%	-	4,499
		<u>11,071</u>	<u>5,301</u>

As of December 31, 2008, an amount of CM 7,558 thousand (December 31, 2007: CM 73 thousand) was associated with foreign currency a vista accounts opened with related banks from the Russian Federation.

## 12. LOANS TO CUSTOMERS

	<u>Thousands of CM</u>	
	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Short-term loans in CM:		
- corporate customers	838	-
- retail customers	31	1
Short-term loans in foreign currencies:		
- foreign entities	4,890	-
Long-term loans in CM:		
- retail customers	171	-
Current portion of long-term loans in CM:		
- retail customers	43	-
	<u>5,973</u>	<u>1</u>

As of December 31, 2008, short-term loans denominated in foreign currency placed with foreign customers, in the amount of CM 4,890 thousand, are associated with five loans approved in the amounts of CM 978 thousand (the equivalent of EUR 500 thousand) that accrue interest at the rates ranging from 9% to 14% annually.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts expressed in thousands of CM, unless otherwise stated.*

## 13. EQUIPMENT AND INTANGIBLE ASSETS

	Thousands of CM		
	Equipment	Intangible Assets	2008 Total
<b>Cost</b>			
Balance, January 1, 2008	351	-	351
Additions	259	56	315
Balance, December 31, 2008	<u>610</u>	<u>56</u>	<u>666</u>
<b>Accumulated Depreciation and Amortization</b>			
Balance, January 1, 2008	18	-	18
Charge for the year	79	5	84
Balance, December 31, 2008	<u>97</u>	<u>5</u>	<u>102</u>
<b>Net book value:</b>			
December 31, 2008	<u>513</u>	<u>51</u>	<u>564</u>
December 31, 2007	<u>333</u>	<u>-</u>	<u>333</u>

At December 31, 2008, the Bank's equipment was insured against common risks.

## 14. ACCRUED INTEREST AND OTHER ASSETS

	Thousands of CM	
	December 31, 2008	December 31, 2007
In CM:		
- Interest receivable	20	11
- Fee and commission receivable	1	-
- Advances paid	11	-
- Receivables arising from prepaid taxes and contributions	-	5
- Other receivables	11	4
	<u>43</u>	<u>20</u>
In foreign currencies:		
- Interest receivable	7	-
- Fee and commission receivable	4	-
- Deferred interest receivables	18	15
	<u>29</u>	<u>15</u>
	<u>72</u>	<u>35</u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts expressed in thousands of CM, unless otherwise stated.*

## 15. DUE TO CUSTOMERS

	Thousands of CM	
	December 31, 2008	December 31, 2007
Demand deposits in CM:		
- Corporate customers	1,060	156
- Retail customers	60	17
- Other customers	1	-
	<u>1,121</u>	<u>173</u>
Demand deposits in foreign currencies:		
- Foreign entities	1	6
- Retail customers	74	4
	<u>75</u>	<u>10</u>
Short-term deposits in CM:		
- State institutions	10,600	5,000
- Retail customers	20	-
	<u>10,620</u>	<u>5,000</u>
Short-term deposits in foreign currencies:		
- Corporate customers	46	-
- Retail customers	181	45
- Foreign entities	57	-
	<u>284</u>	<u>45</u>
Long-term deposits in CM:		
- Retail customers	16	-
	<u>16</u>	<u>-</u>
Long-term deposits in foreign currencies:		
- Retail customers	361	-
	<u>361</u>	<u>-</u>
	<u>12,477</u>	<u>5,228</u>

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

Short-term deposits in CM obtained from state institutions comprise short-term deposits with maturities ranging from 7 days to one year and an interest rate from 1.5% to 5.25% annually.

Long-term foreign currency deposits of retail customers have been placed at interest rates ranging from 3.4% to 7% annually.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts expressed in thousands of CM, unless otherwise stated.***16. OTHER LIABILITIES**

	Thousands of CM	
	December 31, 2008	December 31, 2007
In CM:		
- accounts payable	29	43
- advances received	3	-
- other liabilities	50	25
- deferred income	17	-
	<u>99</u>	<u>68</u>
In foreign currencies:		
- matured fees and commissions payable	-	3
- deferred interest payable	14	-
	<u>14</u>	<u>3</u>
	<u>113</u>	<u>71</u>

**17. SHARE CAPITAL**

The share capital of the Bank was created from the initial shareholders' investments. Initial capital consists of cash only and amounts to CM 20,000 thousand. A holder of a Bank's common share is entitled to:

- participate in the Bank's decision-making process,
- share in profit (dividend),
- a portion of liquidation or bankruptcy estates in the process of Bank's winding up or bankruptcy,
- the preemption right (right of first refusal) up to the amount of perceptual interest in the issued capital and only if the shareholder subscribes for shares (in writing) within 30 days from the date of announcing a new share issuance.

As of December 31, 2008, the Bank's share capital was comprised of 200,000 shares with the par value of CM 100.

The Bank's ownership structure as registered with the Central Registry of Securities of the Republic of Srpska at December 31, 2008 and December 31, 2007 was as follows:

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

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, 2008, the capital adequacy ratio was 126.4%.

**17. SHARE CAPITAL (Continued)**

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts expressed in thousands of CM, unless otherwise stated.*

According to the analysis performed by the Bank's management, the loss incurred in the period from June 12 through December 31, 2007, as well as in the year ended December 31, 2008 in the aggregate amount of CM 2,206 thousand is a result of poorly developed business operations of the Bank due to its recent commencement of operations.

The Strategic Plan of the Bank provides for a new share issue in the period from 2009 to 2012 which would increase the Bank's capital for at least CM 5,000 thousand. The same Plan envisages the increase in business operations which would lead to the opening 8 new Branch Offices in the major cities of the Republic of Srpska, attract clients with most favorable interest rates payable on deposits and loans. The forgoing appeal to clients would result in the increase of deposits and loans placed with clients, which would bring about the rise in the net interest income and fee and commission income. Based on the presented plans and projected income statements and balance sheets, the Bank projected net income for the period from 2009 through 2012 in the aggregate amount of CM 2,560 thousand.

**18. CONTINGENT LIABILITIES AND COMMITMENTS****a) Payment and performance guarantees and other irrevocable commitments**

	<u>December 31 2008</u>	<u>December 31, 2007</u>
Payment guarantees	260	-
Performance guarantees	<u>14</u>	<u>-</u>
	<u>274</u>	<u>-</u>

As of December 31, 2008, provisions for potential losses contingent upon off-balance sheet items amounted to CM 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, 2008, 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 20% of the Bank's total daily deposits. As of December 31, 2008, the deposits made by the Ministry of Finance of the Republic of Srpska amounted to 84.96% of the total daily deposits of the Bank;
- The total amount of all funds, loans and guarantees placed exceeded 40% of the Bank's share capital. As of December 31, 2008 the ratio in question amounted to 42.6%.

The Law on Banks of the Republic of Srpska (Official Gazette of RS number 44/03) defines 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.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts expressed in thousands of CM, unless otherwise stated.***19. 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 afore-described situation creates tax risks in the Republic of Srpska that are substantially more significant than those typically existing in countries with more developed tax systems.

**20. RELATED PARTY TRANSACTIONS**

	Thousands of CM	
	December 31, 2008	December 31, 2007
<b>Assets:</b>		
Funds held on the account with:		
- EEFC BANK PLC St. Petersburg, Russian Federation	3,974	73
- PETRO AERO BANK St. Petersburg, Russian Federation	3,584	-
	<u>7,558</u>	<u>73</u>
<b>Liabilities:</b>		
Transaction accounts of the Bank's management	-	7
	<u>-</u>	<u>7</u>
Assets, net	<u>7,558</u>	<u>66</u>
	Thousands of CM	
	2008	Period from June 12 through December 31, 2007
<b>Income</b>		
Interest income	741	235
<b>Expenses</b>		
Remunerations to the members of the Supervisory Board and Bank's management	(42)	(86)
<b>Income, net</b>	<u>699</u>	<u>149</u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts expressed in thousands of CM, unless otherwise stated.***21. MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

The table below provides an analysis of assets and liabilities components classified into their relevant maturity rankings, on the basis of 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, 2008 are as follows:

	<b>Thousands of CM</b>				
	<b>Up to One Month</b>	<b>From 1 to 3 Months</b>	<b>From 3 to 12 Months</b>	<b>Over 1 Year</b>	<b>Total</b>
<b>ASSETS</b>					
Cash and balances with Central Bank and other banks	12,996	-	-	-	12,996
Due from other banks	11,071	-	-	-	11,071
Loans to customers	991	-	4,767	215	5,973
Equipment and intangible assets	-	-	-	564	564
Accrued interest and other assets	70	1	1	-	72
<b>Total assets</b>	<b>25,128</b>	<b>1</b>	<b>4,768</b>	<b>779</b>	<b>30,676</b>
<b>LIABILITIES</b>					
Deposits	10,702	1,495	216	64	12,477
Other liabilities	85	12	16	-	113
Long-term provisions	173	-	96	24	293
<b>Total liabilities</b>	<b>10,960</b>	<b>1,507</b>	<b>328</b>	<b>88</b>	<b>12,883</b>
<b>Net liquidity gap</b>	<b>14,168</b>	<b>(1,506)</b>	<b>4,440</b>	<b>691</b>	<b>17,793</b>
<b>As of December 31, 2007</b>					
Total assets	24,468	-	5	333	24,806
Total liabilities	754	40	4,507	-	5,301
<b>Liquidity gap</b>	<b>23,714</b>	<b>(40)</b>	<b>(4,502)</b>	<b>333</b>	<b>19,505</b>

The Bank's liquidity, i.e. its capacity to discharge matured liabilities, partially depends on the Bank's balance sheet structure, and is partially contingent upon inflows and outflows of assets. The structure of the Bank's assets and liabilities as of December 31, 2008 points to a considerable liquidity gap in the period of three to twelve months. The main reason for the aforementioned liquidity gap is the relatively short period of the Bank's existence, where a considerable portion of resources had not been placed with customers until the balance sheet date, but had been deposited to the account held with the Central Bank of Bosnia and Herzegovina.



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts expressed in thousands of CM, unless otherwise stated.*

## 22. 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, 2008:

	<b>Thousands of CM</b>		
	<b>December 31, 2008</b>		
	<b>Interest- Bearing Items</b>	<b>Non-Interest Bearing Items</b>	<b>Total</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Cash and balances with the Central Bank	12,517	479	12,996
Due from other banks	3,513	7,558	11,071
Loans to customers	5,973	-	5,973
Equipment and intangible assets	-	564	564
Accrued interest and other assets	45	27	72
<b>Total Assets</b>	<u>22,048</u>	<u>8,628</u>	<u>30,676</u>
<b>LIABILITIES</b>			
Due to customers	12,477	-	12,477
Other liabilities	14	99	113
Long-term provisions	-	293	293
<b>Total Liabilities</b>	<u>12,491</u>	<u>392</u>	<u>12,883</u>
<b>Net interest sensitivity gap:</b>			
- December 31, 2008	<u>9,557</u>	<u>8,236</u>	<u>17,793</u>
- December 31, 2007	<u>19,007</u>	<u>498</u>	<u>19,505</u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts expressed in thousands of CM, 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>
<b>Assets</b>		
Obligatory reserve with the Central Bank	-	1%
Funds exceeding obligatory reserve with the Central Bank	-	1.68% - 4.17%
Foreign currency accounts with related banks	0%	-
Foreign currency accounts with foreign banks	0.01% - 4.3%	-
Time deposits with foreign banks	2.19% - 7.2%	-
Short-term loans to customers:		
- corporate customers	9% - 14%	8% - 10,5%
- retail customers	-	6.8% - 8.8%
Overdrafts per accounts		
- corporate customers	-	9% - 12%
- retail customers	-	9.5% - 12%
Short-term loans to customers:		
- retail customers	-	6.5% - 8.95%
<b>Liabilities</b>		
Demand deposits		
- corporate customers	0.25% - 0.3%	0.3%
- retail customers	0.25% - 0.3%	0.3%
Short-term deposits:		
- state institutions	2% - 6%	1.5 % - 5.25%
- corporate customers	2% - 6%	3 % - 5.25%
- retail customers	2% - 6%	3% - 5.25%
Short-term deposits:		
- state institutions	3.4% - 7%	5% - 7%
- corporate customers	3.4% - 7%	5% - 7%
- retail customers	3.4% - 7%	5% - 7%

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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

The analysis of assets and liabilities denominated in foreign currencies as of December 31, 2008, per separate currencies, was as follows:

	<b>Thousands of CM</b>					<b>Total</b>
	<b>EUR</b>	<b>USD</b>	<b>Other Currencies</b>	<b>Total Balance In Currency</b>	<b>Local Currencies</b>	
<b>ASSETS</b>						
Cash and balances with Central Bank and other banks	10,350	825	74	11,249	12,818	24,067
Loans to customers	5,002	-	-	5,002	971	5,973
Equipment and intangible assets	-	-	-	-	564	564
Accrued interest and other assets	24	-	-	24	48	72
<b>Total assets</b>	<b>15,376</b>	<b>825</b>	<b>74</b>	<b>16,275</b>	<b>14,401</b>	<b>30,676</b>
<b>LIABILITIES</b>						
Due to customers	10,962	62	16	11,040	1,437	12,477
Other liabilities	17	1	5	23	90	113
Long-term provisions	-	-	-	-	293	293
<b>Total liabilities</b>	<b>10,979</b>	<b>63</b>	<b>21</b>	<b>11,063</b>	<b>1,820</b>	<b>12,883</b>
<b>Net currency exposure</b>	<b>4,397</b>	<b>762</b>	<b>53</b>	<b>5,212</b>	<b>12,581</b>	<b>17,793</b>
<b>As of December 31, 2007</b>						
Total assets	5,108	285	9	5,402	19,404	24,806
Total liabilities	80	5	-	85	5,216	5,301
<b>Net currency exposure</b>	<b>5,028</b>	<b>280</b>	<b>9</b>	<b>5,317</b>	<b>14,188</b>	<b>19,505</b>

**25. EXCHANGE RATES**

The official exchange rates for major currencies used in the translation of balance sheet components denominated in foreign currencies into CM as of December 31, 2008 were as follows:

	<b>December 31, 2008</b>	<b>In CM December 31, 2007</b>
USD	1.3873	1.3312
CHF	1.3071	1.1779
EUR	1.9558	1.9558