

**HIPOTEKARNA BANKA A.D.,  
PODGORICA**

**Financial Statements for the  
Year Ended as at 31 December 2007  
With the Independent Auditor's Report Thereon**

Podgorica, April 2008



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PIB 02626837  
PDV 30/31-05509-0

TO THE SHAREHOLDERS OF  
HIPOTEKARNA BANKA  
A.D. PODGORICA

### **Auditor's Report**

We have audited the accompanying balance sheet of *Hipotekarna banka AD, Podgorica* ("the Bank"), as at 31 December 2007, with corresponding 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 of *Hipotekarna banka AD, Podgorica* is responsible for the preparation and fair presentation of these financial statements in accordance with the relevant legislation of Montenegro. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, 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. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our 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, we consider 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 principles 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 opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with legislation in force in Montenegro.

Podgorica, 24 April 2008

KPMG d.o.o. Podgorica

(L.S.)

Dejan Janković  
*Director*

*This is a Translation of the Original Report on the Financial Statements issued in Montenegrin Language. We are responsible for the translation of the Report on the Financial Statements and not for any other documents*

Podgorica, 24 April 2008

KPMG d.o.o. Podgorica



Dejan Janković  
*Director*

**STATEMENT OF INCOME FOR THE YEAR ENDED 31 December 2007**

In thousands of EUR	Notes	2007	2006
Interest income	2.3, 3	3,044	1,551
Interest expense	2.3, 3	(986)	(208)
<b>Net interest income</b>		<b>2,058</b>	<b>1,343</b>
Impairment losses	2.4, 4	(2,135)	(405)
<b>Net income/loss</b>		<b>(77)</b>	<b>938</b>
Fee and commission income	2.3, 3	1,688	1,066
Fee and commission expenses	2.3, 3	(357)	(178)
<b>Net fee and commission income</b>		<b>1,331</b>	<b>888</b>
<b>Net income from interest and fees and commissions</b>		<b>1,254</b>	<b>1,826</b>
Other operating income	2.5, 5	4,429	3,026
Administrative and general expenses	2.6, 6	(4,661)	(3,705)
<b>Net income/ loss before extraordinary items</b>		<b>1,022</b>	<b>1,147</b>
Extraordinary income		23	45
Extraordinary expenses		(36)	(15)
Net extraordinary income/ expenses		(13)	30
<i>Profit before tax</i>		1,009	1,177
Income tax expense	2.8	-	-
<b>Profit after tax</b>		<b>1,009</b>	<b>1,177</b>

The notes on pages 7 to 33 form an integral part of these Financial Statements.  
Independent Auditor's Report – pages 1 to 2.

**BALANCE SHEET AS AT 31 December 2007**

In thousands of EUR	Notes	2007	2006
<b>ASSETS</b>			
Cash and balances with banks and Central Bank	7	11,379	27,440
Assets available for sale, excluding shares		41	41
Loans receivable	2.7, 8	58,185	20,711
Less: Provision for loan losses	8	(3,252)	(1,371)
Securities held to maturity			69
Fixed assets	2.10, 9	1,222	927
Investments in equity of other entities	2.9, 10	229	199
Other assets	11	1,391	190
Less: Provision for other assets	12	(116)	(45)
<b>TOTAL ASSETS</b>		<b>69,079</b>	<b>48,161</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Deposits	2.12, 13	40,117	35,643
Borrowings	2.13, 14	6,500	1,500
Liabilities to Government	2.14, 15	1,502	1,721
Other liabilities	16	1,560	910
Provisions for impairment of contingent liabilities	17	1,278	1,424
<b>Total liabilities</b>		<b>50,957</b>	<b>41,198</b>
<b>Equity</b>	2.15, 18	<b>18,122</b>	<b>6,963</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>69,079</b>	<b>48,161</b>

Podgorica, 24 April 2008

HIPOTEKARNA BANKA  
AD, Podgorica

Esad Zaimović  
General Manager

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## CHANGES IN SHAREHOLDERS' EQUITY

In thousands of EUR	Share capital	Reserve	Retained earnings/loss	Total
<b>Balance as at 1 January 2006</b>	<b>13,450</b>	<b>1,699</b>	<b>(9,363)</b>	<b>5,786</b>
Profit after tax	-	-	1,177	1,177
<b>Balance as at 31 December 2006</b>	<b>13,450</b>	<b>1,699</b>	<b>(8,186)</b>	<b>6,963</b>

In thousands of EUR	Share capital	Share premium	Reserve	Retained earnings/loss	Total
<b>Balance as at 1 January 2007</b>	<b>13,450</b>		<b>1,699</b>	<b>(8,186)</b>	<b>6,963</b>
Issuing of new share	2,556	7,444	-	-	10,000
Profit after tax	-	-	-	1,009	1,009
General loan loss reserve	-	-	150	-	150
<b>Balance as at 31 December 2007</b>	<b>16,006</b>	<b>7,444</b>	<b>1,849</b>	<b>(7,177)</b>	<b>18,122</b>

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**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007**

In thousands of EUR	2007	2006
Interest and other receipts	4,591	2,359
Other inflow	4,272	4,681
<i>Cash inflow generated from operating activities</i>	8,863	7,040
Interest and fee payments	(1,343)	(371)
Cash payments for gross salaries and fees	(2,005)	(1,767)
Cash payments for other expenses	(2,215)	(1,645)
<i>Cash outflow generated from operating activities</i>	(5,563)	(3,783)
<i>Net cash inflow generated from operating activities</i>	3,300	3,257
Increase in mandatory reserve	(1,554)	(2,369)
Increase in granted loans, net	(37,575)	(14,000)
Increase in other assets	(425)	-
Increase in securities	-	(110)
<i>Increase/ decrease in operating assets</i>	(39,554)	(16,479)
Increase in deposits	4,474	26,890
Increase in other liabilities	602	50
<i>Increase/ decrease in operating liabilities</i>	5,076	26,940
Net cash from operating activities	(31,178)	13,718
Sales of investments in equity of other entities	-	31
Increase in fixed and intangible assets	(1,373)	(560)
<i>Cash outflow from investing activities</i>	(1,373)	(529)
Increase/decrease in borrowings	4,781	1,624
Increase in share capital	10,000	-
<i>Cash inflow from financing activities</i>	14,781	1,624
Total cash inflow	28,720	35,635
Total cash outflow	(46,490)	(20,822)
<b>Net increase in cash and cash equivalents</b>	<b>(17,770)</b>	<b>14,813</b>
Cash and cash equivalents (excluding mandatory reserve) at the beginning of the year	23,511	8,668
Foreign exchanges (net)	155	30
Cash and cash equivalents at the end of the year	5,896	23,511
<b>Net increase in cash and cash equivalents</b>	<b>(17,615)</b>	<b>14,843</b>

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