BOR BANKA D.D. SARAJEVO

Financial statements for the year ended 31 December 2010 prepared in accordance with International Financial Reporting Standards and modified by regulatory requirements of the Federal Banking Agency together with Independent Auditors' Report

BOR BANKA D.D. SARAJEVO

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Management Board is responsible for ensuring that financial statements are prepared for each financial period in accordance with International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board (IASB), and modified by the regulatory requirements prescribed by the Federal Banking Agency in Bosnia and Herzegovina, which give a true and fair view of the state of affairs and results of BOR Banka d.d. Sarajevo („the Bank") for that period.

After making enquiries, the Management Board has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and must also; ensure that the financial statements comply with the Federation of Bosnia and Herzegovina Accounting and Audit Law. The Management Board is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board

Hamid Pršeš, Director

BOR Banka d.d. Sarajevo

Obala Kulina bana br.18
71 000 Sarajevo
Bosnia and Herzegovina

19 January 2011

PKF

Accountants &
business advisers

Independent Auditor´s report

To the shareholders of BOR Banka d.d., Sarajevo:

We have audited the accompanying financial statements of BOR Banka d.d. Sarajevo („the Bank“), set out on pages 3 to 35 which comprise of the balance sheet (statement of financial position) as at 31 December 2010, and the income statement (statement of comprehensive income), statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and modified by the regulatory requirements prescribed by the Federal Banking Agency in Bosnia and Herzegovina. 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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2010, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and modified by the regulatory requirements prescribed by the Federal Banking Agency in Bosnia and Herzegovina.

PKF Re Opinion d.o.o.

DRUŠTVO ZA REVIZIJU PKF RE OPINION d.o.o. SARAJEVO

Nihad Fejzić, Director and Certified Auditor

Miroslav Branković, Certified Auditor

Sarajevo, 19 January 2010

PKF Re Opinion d.o.o. Sarajevo | Grbavička 4/IV | 71000 Sarajevo | BiH
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PDV broj 200960550009 | transakcioni račun Raiffeisen Bank 1610000045270008

BOR BANKA D.D. SARAJEVO

INCOME STATEMENT – STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 KM 000	2009 KM 000
Interest income	7	7,164	5,851
Interest expense	8	(2,302)	(1,300)
NET INTEREST INCOME		**4,862**	**4,551**
Fee and commission income	9	1,436	729
Fee and commission expense		(71)	(56)
NET FEE AND COMMISSION INCOME		**1,365**	**673**
Other losses (exchange rates differences, net)		(63)	(8)
Other operating income	10	242	190
PROFIT FROM OPERATIONS		**6,406**	**5,406**
Personnel expenses	11	(2,027)	(1,604)
Depreciation expense	23	(399)	(346)
Other administrative expenses	12	(1,194)	(968)
PROFIT BEFORE IMPAIRMENT LOSSES, PROVISIONS AND TAXATION		**2,786**	**2,488**
Impairment losses and provisions	13	(1,284)	(1,717)
Income from collected written off receivables	14	102	170
PROFIT BEFORE TAX		**1,604**	**941**
Income tax expense	15	(188)	(117)
NET PROFIT FOR THE YEAR		**1,416**	**824**
Profit per ordinary share	16	**6.82**	**5.09**

Statement of comprehensive income can be presented as follow:

	2010 KM 000	2009 KM 000
Net profit for the year	1,416	824
Other comprehensive income:		
Profit/(loss) of investments in financial assets available for sale	180	(410)
Revalorization effect of property, plant and equipment	-	(351)
Subtotal:	***180***	***(761)***
Total comprehensive income for the year	**1,596**	**63**

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

BOR BANKA D.D. SARAJEVO
BALANCE SHEET – STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2010

	Note	31/12/2010 KM 000	31/12/2009 KM 000
Assets			
Cash and balances with banks	17	15,178	2,125
Obligatory reserve with Central Bank	18	7,237	7,107
Placements with other banks	19	14,861	15,172
Loans to customers, net	20	94,472	70,132
Financial assets available for sale	21	1,767	1,590
Other assets, net	22	216	447
Tangible and intangible assets	23	19,157	18,821
Total assets		**152,888**	**115,394**
Liabilities			
Due to other banks and financial institutions	24	22,010	19,378
Liabilities toward Government of FB&H („Fund“)	25	31,784	23,642
Liabilities toward customers	26	51,782	27,513
Long term accruals	27	2,634	1,421
Other liabilities	28	873	938
Provisions for contingent liabilities	29	264	247
Total liabilities		**109,347**	**73,139**
Shareholder´s equity and reserves			
Shareholders' equity	30	26,515	26,515
Revaluation reserves		13,134	13,294
Investments revaluation reserve		441	261
Other reserves		10	10
Accumulated profit		3,441	2,175
Total shareholder´s equity		**43,541**	**42,255**
Total liabilities and equity		**152,888**	**115,394**

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

Signed on behalf of the Bank on 19 January 2011

Hamid Pršeš, Director

Enisa Hulusić, Executive director for accounting, analysis and IT

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital KM 000	Revaluation reserves KM 000	Investments revaluation reserve KM 000	Other reserves KM 000	Accumulated profit KM 000	Total KM 000
Balance as of 31 December 2008	**26,515**	**13,812**	**671**	**10**	**1,341**	**42,349**
Other comprehensive income	-	(351)	(410)	-	-	(761)
Transfer from/to	-	(167)	-	-	167	-
Dividend paid	-	-	-	-	(157)	(157)
Net profit for 2009	-	-	-	-	824	824
Balance as of 31 December 2009	**26,515**	**13,294**	**261**	**10**	**2,175**	**42,255**
Transfer from/to	-	(160)	-	-	160	-
Other comprehensive income	-	-	180	-	-	180
Dividend paid	-	-	-	-	(310)	(310)
Net result for 2010	-	-	-	-	1,416	1,416
Balance as of 31 December 2010	**26,515**	**13,134**	**441**	**10**	**3,441**	**43,541**

In accordance with Bank Assembly Decision dated on 9 April 2010 the Bank paid dividends on priority cumulatively shares for 2009 in amount of KM 156 thousand, while on priority noncumulative shares paid KM 154 thousand.

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

BOR BANKA D.D. SARAJEVO
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 KM 000	2009 KM 000
Operating activities		
Profit before tax	1,604	941
Adjustments for:		
Depreciation	399	346
Net increase of provisions	1,284	1,717
Collected written off receivables	(102)	(170)
Loss on disposal of assets and adjustments	21	1
Changes in assets and liabilities:		
Increase of receivables from Central bank B&H	(130)	(1,018)
Net decrease of placements at banks	312	5,470
Net increase of loans to customers, before provisions (net)	(25,507)	(20,246)
Decrease/(increase) of other receivables	235	(6)
Net increase of liabilities toward customers	24,269	17,709
Net changes in long term accruals	1,213	1,421
(Decrease)/increase of other liabilities	(136)	1,019
Cash from operating activities	**3,462**	**7,184**
Income tax paid	(117)	(111)
Net cash provided from operating activities	**3,345**	**7,073**
Investing activities		
Increase of assets available for sale	-	251
Purchase of tangible and intangible assets	(756)	(563)
Net cash used in investing activities	**(756)**	**(312)**
Financing activities		
Proceeds/(repayment of) from borrowings	2,632	(9,037)
Increase of liabilities toward Government of B&H	8,142	1,358
Dividend paid	(310)	(157)
Net cash provided/(used) from financing activities	**10,464**	**(7,836)**
Net increase/(decrease) in cash and cash equivalents	**13,053**	**(1,075)**
Cash and cash equivalents at the beginning of year	**2,125**	**3,200**
Cash and cash equivalents at the end of year	**15,178**	**2,125**

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

1. GENERAL

BOR Banka d.d. Sarajevo ("Bank") is registered 1995 in Federation of Bosnia and Herzegovina with address Obala Kulina Banka no. 18, 71000 Sarajevo, with a goal to support development and recovery process in Bosnia and Herzegovina.

The principal activity of the Bank is:

- Receiving and placing of deposits,
- Other services in accordance with Law,
- Foreign and foreign-currency payment transaction,
- Purchase and selling of securities,
- Emission of securities and cash cards,
- Issuing of guarantees, bill of exchange securities and other form of assurances,
- Performance of certain payment transactions,
- Maintenance and managing with assets and securities,
- Financial engineering transactions,
- Managing of finances,
- Expertise, diagnosis and restructuring,
- Receiving and placing loans,
- Other activities in accordance with registration.

In previous periods Bank had a ban on collection of deposits by the Federal Banking Agency due to specific contract with Kuwait Fund and outstanding capital ownership structure. Pursuant to the Law on Amendments to the Law on deposit insurance in B&H banks („Gazette of B&H No.: 75/09") the Bank has made amendments and changes of the Bank's Statute. By Decision No. 04-772/09 dated 30 March 2009 the Banking Agency of the FB&H approved Statute in part of deposit collection and based on it the Bank has submitted request to the Agency for Deposit Insurance of B&H on 3 September 2009 (No. I-2224/09) and is expecting to obtain license upon comprehensive control by the Banking Agency of the FB&H. According to the above, during 2010, the Bank more intensively collected deposits.

As of 31 December 2010 the Bank has 55 employees (2009 – 49).

Supervisory Board

Esad Hrvačić	Chairman
Aziz Šunje	Member
Ademir Abdić	Member
Denis Lasić	Member
Hajrudin Hadžimehanović	Member

Audit Committee

Tihomir Ćurak	Chairman
Ahmet Alibašić	Member
Edin Tokić	Member
Senad Herenda	Member
Senaid Zajimović	Member

Management Board

Hamid Piršeš	Director of Bank
Ajna Šehović	Executive director for assets and payment operations department
Adela Zorlak	Executive director for population transactions department
Bedina Jusičić Musa	Executive director for legal entities transactions department
Enisa Hulusić	Executive director for accounting, analyze and IT department
Muhamed Šehbajraktarević	Executive director for legal, personnel and general services

Internal auditor of the Bank is Šefika Kreso.

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and interpretations effective in current period

In the current year, the Bank has adopted IFRS's which were effective for annual reporting period:

Effective for periods beginning on 1 January 2010 or after:

IFRS 1	First-time adoption of International Financial Reporting Standards (Additional exemptions for First-Time Adopters, and IFRS 7 Short-term Disclosure Exemption Effective on 1 July 2010)
IFRS 2	Share-based payment (Group Cash-settled Share based Payments)
IAS 32	Financial instruments: presentation (Classification of Rights Issues effective 1 February 2010)
IFRS 5	Non-current assets held for sale and discontinued operations (disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations).
IFRS 8	Operating segments (disclosure of information about segment assets)
IAS 1	Presentation of financial statements (current/non-current classification of convertible instruments)
IAS 7	Statement of cash flows (classification of expenditures on unrecognised assets).
IAS 17	Leases (classification of leases of land and buildings)
IAS 36	Impairment of assets (unit of accounting for goodwill impairment test).
IAS 39	Financial instruments: Recognition and Measurement (treating loan prepayment penalties as closely related derivatives, scope exemption for business combination contracts, cash flow hedge accounting).
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010)

Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IFRS 9	Financial Instruments: Classification and Measurement (effective 1 January 2013)
IAS 24	Related party disclosures (simplifying requests for disclosures for entities where the Government is related party and clarification of related party definition – effective 1 January 2011)
IFRIC 14	Prepayments of a Minimum Funding Requirement (effective 1 January 2011)

Bank will not adopt these standards, amendments and interpretations in advance, before the date they enter into force. Management anticipates that the adoption of these standards and interpretations in future periods will not significantly affect Bank's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

As required by local legislation, the Bank prepares financial statements in accordance with International Financial Reporting Standards („IFRS") as published by the International Accounting Standards Board and modified by the regulatory requirements prescribed by the Federal Banking Agency („FBA") with respect to the calculation of provision for impairment of financial instruments. The financial statements have been prepared on the historical cost basis except for the revaluation of certain noncurrent assets and financial instruments. The principal accounting policies are set out below.

The financial statements are presented in thousands of Convertible mark (KM'000) which is the functional currency of the Bank. The financial statements are prepared on an accrual basis of accounting, under the going concern assumption. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of preparation (continued)

These estimates are based on the information available as at the reporting period date and actual results could differ from those estimates.

The Bank maintains its books of accounts and prepares financial statements for regulatory purposes in accordance with the regulations of the Federal Banking Agency and Law on Banks of the Federation of Bosnia and Herzegovina. The Bank considers that it operates in a single business segment, and a single geographical segment, that is the provision of banking services in Bosnia and Herzegovina.

3.2 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit and loss, are recognized within interest and similar income‘ and interest expense and similar charge‘ in the income statement using the effective interest rate method.

3.3 Fee and commission income and expense

Fees and commissions consist mainly of fees earned on domestic and foreign payment transactions, and fees for loans and other credit instruments issued by the Bank. Fees for payment transactions are recognized in the period when services are rendered.

Loan origination fees, after approval and drawdown of loans, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan over its life.

3.4 Employee benefits

On behalf of its employees, the Bank is paying pension and health insurance on and from salaries, as well as taxes. The Bank is paying the above contributions into the Pension and health funds of the Federation of Bosnia and Herzegovina, as per the set legal rates during the course of the year on the gross salary paid. In addition, meal allowances, transport allowances and vacation bonuses are paid in accordance with the local legislation. These expenses are recorded in the income statement in the period in which the salary expense is incurred.

3.5 Retirement severance payments

In accordance with local legislation, Bank allow severance payments as minimum six salaries paid in past months or six average salaries in Federation of Bosnia and Herzegovina for past month, depending on what is suitable for employee.

The cost of providing benefits is determined using the Projected Unit Credit Method. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested. The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost.

3.6 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax expense is based on taxable income for the year. Taxable income differs from net income as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank‘s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting period date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Taxation (continued)

The carrying amount of deferred tax assets is reviewed at each reporting period date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Bank has the ability and intention to settle on a net basis. The Bank is subject to various indirect taxes which are included in administrative expenses.

3.7 Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash, balances with the Central Bank („CBBH'), current accounts with other banks and cash at hand.

Cash and cash equivalents excludes the compulsory minimum reserve with the Central Bank as these funds are not available for the Bank's day to day operations. The compulsory minimum reserve with the CBBH is a required reserve to be held by all commercial banks licensed in Bosnia and Herzegovina.

3.8 Financial assets

Financial assets are recognized and derecognized on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the instrument within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as at fair value through profit or loss' (FVTPL), available-for-sale' (AFS), held-to-maturity investments', and loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Method of effective interest rate

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) thro ugh the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for financial instruments: held-to-maturity investments', available for-sale' and loans and receivables'.

Financial assets at fair value through income statement

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 34, point).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial assets (continued)

Held to maturity investments
Debentures with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized on an effective yield basis.

Financial assets available for sale
Listed shares and listed redeemable notes held by the Bank that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in the Note 34, point).

Gains and losses arising from changes in fair value are recognized directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognized in profit or loss when the Bank‘s right to receive payments is established. The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting period date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognized in profit or loss, and other changes are recognized in equity.

Loans and receivables
Loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets
Impairment of loans
FBA rules require banks to make provision for impairment losses on loan portfolio, including 2% of general provision, by using a matrix system based on number of days of overdue, as follows:

Overdue days		
From	To	Category % of provision
1	30	A 2%
31	90	B 5% - 15%
91	180	C 16% - 40%
181	270	D 41% - 60%
271 and more		E 100%

Impairment of financial assets other than loans
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting period date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For all other financial assets objective evidence of impairment could include:
- significant financial difficulty of the counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial assets (continued)

Impairment of financial assets (continued)
For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset‘s carrying amount and the present value of estimated future cash flows, discounted at the financial asset‘s original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognized.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Derecognition of financial assets
Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank continues to recognize the financial asset.

3.9 Financial liabilities and equity instruments issued by the Bank

Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

Financial guarantee contract liabilities
Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37: „Provisions, Contingent Liabilities and Contingent Assets";
- and the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out at above.

Financial liabilities
Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. The Bank creates one category of financial liabilities, for which basis of accounting is disclosed below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Financial liabilities and equity instruments issued by the Bank (continued)

Other financial liabilities
Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities
The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

3.10 Property and equipment
Property and equipment are stated at cost or its revalue amount less accumulated depreciation and any accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Initially, property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacement of assets are capitalised. Gains or losses on the retirement or disposal of property, plant and equipment are included in the income statement in the period they occur.

Properties in the course of construction are carried at cost, less impairment loss, if any. Depreciation commences when the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the estimated useful life of the applicable assets

Estimated depreciation rates were as follows:

Buildings	1.3% (till 77 years)
Computers	33% (till 3 years)
Furniture and other office equipment	7% - 20% (from 5 to14 years)

3.11 Intangible assets
Intangible assets are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

4. BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

Foreign currency translation
Transactions in currencies other than Bosnia and Herzegovina KM are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities are translated at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined.

4. BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation (continued)
Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Profits and losses arising on translation are included in the income statement for the year. The Bank values its assets and liabilities by middle rate of Central Bank of Bosnia and Herzegovina valid at the date of balance sheet, which approximate market rates. The principal rates of exchange set forth by the Central Bank and used in the preparation of the Bank's balance sheet at the reporting dates were as follows:

31 December 2010 EUR 1= KM 1.95583 USD 1= KM 1.472764
31 December 2009 EUR 1= KM 1.95583 USD 1= KM 1.364088

For the financial assets and liabilities denominated in KWD, the Bank use Kuwait National Bank rate.

31 December 2010 KWD 1 = KM 5.182754
31 December 2009 KWD 1 = KM 4.714919

Provisions
Provisions are recognized when the Bank has a present obligation as a result of a past event, and it is probable that the Bank will be required to settle that obligation. Management Board estimates the provisions based at the best estimate of expenditure to settle the Bank's obligation. Provisions are discounted to present value where the effect is material.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies, which are described in Note 4, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty
The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property and equipment
As described at Note 3 above, the Bank reviews the estimated useful lives of property and equipment at the end of each annual reporting period.

Impairment losses on loans and advances
As described at Note 3 above, the Bank assessed indicators for impairment by applying the established loss percentages to aged loans, grouped by the number of days overdue in accordance with the FBA regulations.

Fair value of derivatives and other financial instruments
As described in Note 34., the Management use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial instruments, other than loans, are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates.

6. GLOBAL MARKET CRISIS

The Bank was impacted by the recent financial crisis and deteriorating economic conditions. Due to the current global crisis in the market and its effects on the local market in Bosnia and Herzegovina, the Bank will probably still operate in more difficult and uncertain economic environment in 2010. The impact of this crisis on the Bank's business operations is currently not possible to fully predict and therefore there is an element of general uncertainty.

So far, the ongoing financial crisis has had some impact on the financial position and performance of the Bank, mainly in the amount of additional loan provisions recognized in the income statement for the year ended 31 December 2010. The Bank monitors closely the credit, liquidity, interest rate and foreign exchange risks on a regular basis. 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 2011 and other areas that require estimates to be made by management, including the valuation of collateral and of securities.

These 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 2011 will be attention to the resolution of regulatory capital issue, management of the financial portfolio adjusting to the changing economic environment and maintaining the Bank's market share.

7. INTEREST INCOME

	2010 KM 000	2009 KM 000
Legal entities (legal entities)	6,018	4,653
Individuals	688	649
Interests on impaired loans (penalty interest)	191	228
Amortization of discount (Note 27)	187	209
Placement with domestic banks	39	35
Placement with foreign banks	24	54
The Central bank of B&H (on compulsory reserve)	17	20
Other interest income	-	3
Total	**7,164**	**5,851**

8. INTEREST EXPENSE

	2010 KM 000	2009 KM 000
Interest on deposits from companies	1,346	446
Interests on Government funds	518	446
Interests on other credit assets	365	404
Interest on deposits from individuals	73	4
Total	**2,302**	**1,300**

9. FEE AND COMMISSION INCOME

	2010 KM 000	2009 KM 000
Commission transactions	673	478
Fees from payment transactions	472	-
Fees from commitment and contingent liabilities	274	243
Fees from conversion transactions	17	8
Total	**1,436**	**729**

10. OTHER OPERATING INCOME

	2010 KM 000	2009 KM 000
Income from heating services	188	132
Other income	54	58
Total	**242**	**190**

11. PERSONNEL EXPENSES

	2010 KM 000	2009 KM 000
Net salaries	1,045	797
Taxes and contributions	471	360
Meal allowance and transportation costs	200	181
Other	311	266
Total	**2,027**	**1,604**

12. OTHER ADMINISTRATIVE EXPENSES

	2010 KM 000	2009 KM 000
Professional services	234	218
Energy costs	163	135
Advertising and entertaining	154	73
Supervisory Board and Audit committee fees	140	147
Material and small inventories costs	91	54
Court and administrative taxes	72	94
Maintenance	47	63
Other costs	293	184
Total	**1,194**	**968**

13. IMPAIRMENT LOSSES AND PROVISIONS

	2010 KM 000	2009 KM 000
Provisions for potential losses on loans (Note 20)	1,309	2,174
Decrease on provision for redeemed loans by PBS (Note 20)	(40)	(679)
Decrease of provision for possible losses on other assets (Note 22)	(4)	149
Provision for commitments and contingencies (Note 29)	17	79
Decrease of provision for possible losses on placements at banks (Note 19)	(1)	(3)
Provision for possible losses on assets available for sale (Note 21)	3	(3)
Total	**1,284**	**1,717**

14. INCOME FROM COLLECTED WRITTEN OFF RECEIVABLES

	2010 KM 000	2009 KM 000
Principal	61	47
Interest	41	73
Other	-	50
Total	**102**	**170**

15. INCOME TAX

Tax charge for the year can be presented as follows:

	2010 KM 000	2009 KM 000
Income before tax	**1,604**	**941**
Non-deductible expenses	276	229
Taxable income	**1,880**	**1,170**
Tax at the domestic income tax rate of 10%	188	117
Tax expense for the year	**188**	**117**
Effective tax rate	**11.72**	**12.43**

16. EARNINGS PER SHARE

	2010 KM 000	2009 KM 000
Net profit	1,416	824
Less: Dividends on preferred shares	(311)	-
Subtotal:	1,105	-
Weighted average number of ordinary shares outstanding (000)	162	162
Basic earnings per ordinary share in KM	**6.82**	**5.09**

17. CASH AND BALANCES WITH BANKS

	31/12/2010 KM 000	31/12/2009 KM 000
Current account with the Central Bank of Bosnia and Herzegovina	14,792	1,784
Cash on hands in domestic currency	206	133
Cash on hands in foreign currency	180	208
Total	**15,178**	**2,125**

18. OBLIGATORY RESERVE WITH THE CENTRAL BANK

	31/12/2010 KM 000	31/12/2009 KM 000
Obligatory reserve	5,944	2,842
Specific reserve by Banking Law, article 42 a.(Note 26)	1,293	4,265
Total	**7,237**	**7,107**

Minimum obligatory reserve is calculated as a percentage of the average amount of total deposits and borrowings for each working day during 10 calendar days following the period of maintaining the obligatory reserve. The rates of minimum obligatory reserve were 14% of total short-term deposits and borrowings and 7% of total long-term deposits and borrowings.

In accordance with Law on banks (article 42 a.), the Bank is obliged to hold 50% of daily balance of received payments from public funds, deposits and transactions for budgetery and off budgetery funds in cash as specific reserve in Central Bank. This refers to funds and transactions of customer Stari Grad and 50% of these funds amounted to KM 1,293 thousand as of 31 December 2010.

Interest rate on assets kept up to minimum obligatory reserve was 0.5% up to 31 July 2010. Starting from 1 August 2010, this interest rate is from 0.21% till 0.53%. Cash held at the obligatory reserve account with the Central Bank of Bosnia and Herzegovina is not available for daily operations without specific approval from the Central Bank of Bosnia and Herzegovina and FBA.

19. PLACEMENTS WITH OTHER BANKS

	31/12/2010 KM 000	31/12/2009 KM 000
Loans:		
Una banka d.d. Bihać	1,818	1,818
Vakufska banka d.d. Sarajevo	-	32
Subtotal:	**1,818**	**1,850**
Demand deposits in foreign currency:		
Deutsche Bank AG, Germany	4,026	3,048
National Bank of Kuwait	2,447	1,557
Raiffeisen Zentralbank AG, Austria	674	3,029
KBC Brussels, Belgium	303	17
Nova Ljubljanska banka, Slovenia	170	978
Zagrebačka banka, Croatia	111	80
AHLI United Bank London, United Kingdom	17	45
Subtotal:	**7,748**	**8,754**
Term deposits in foreign currency:		
AHLI United Bank London, United Kingdom	3,628	4,621
Nova Ljubljanska banka, Slovenia	1,760	-
Subtotal:	**5,388**	**4,621**
Term deposits in domestic currency:		
ABS Banka d.d. Sarajevo	-	41
Total placements before provision	**14,954**	**15,266**
Provision for impairments:	**(93)**	**(94)**
Total	**14,861**	**15,172**

Annual interest rates for foreign currency placements can be presented as follows:

	2010 KM 000	2009 KM 000
	In % annually	**In % annually**
Placements in EUR	0.03 – 0.70	0.15 – 0.25
Placements in USD	0.01 – 0.05	0.10
Placements in KWD	0.20 – 0.63	0.25 – 2.50

Changes in provision can be presented as follows:

	2010 KM 000	2009 KM 000
Balance at beginning of the year	**94**	**97**
Increase of provisions (Note 13)	-	1
Decrease of provisions (Note 13)	(1)	(4)
Total	**93**	**94**

20. LOANS TO CUSTOMERS, NET

	31/12/2010 KM 000	31/12/2009 KM 000
Short-term loans:		
Legal entities	14,086	20,834
Individuals	45	18
Current portion of long-term loans	15,573	7,816
Subtotal:	***29,704***	***28,668***
Long-term loans:		
Legal entities	76,305	47,239
Individuals	9,817	7,753
Current portion of long-term loans	(15,573)	(7,816)
Subtotal:	**70,549**	**47,176**
Total loans before provisions	100,253	75,844
Provision for loans	(5,781)	(5,712)
Total	**94,472**	**70,132**

Bank signed two purchase contracts with Privredna Banka Sarajevo d.d. Sarajevo and Ministry of Finance of FB&H that are realized during 2009 and 2010. Discount that represent difference between nominal value of portfolio and cashless reconciliation (payments); will be recognized as interest income at maturity, on individual basis repayment of separate loans (Note 27).

Short-term loans are approved on period from 1 till 365 days. Majority of short-term loans in domestic currency have been authorised to customers for working capital. Long-term loans mostly have been approved to legal entities for different investment activities and for working capital.

Changes in provisions can be presented as follows:

	2010 KM 000	2009 KM 000
Balance at beginning of the period	**5,712**	**4,618**
Increase of provisions (Note 13)	3,711	3,465
Increase of provisions–purchased loans from PBS (Note 13)	(40)	679
Decrease of provisions (Note 13)	(2,402)	(1,970)
Write offs	(1,615)	(773)
Exchange rate differences	415	(307)
Total	**5,781**	**5,712**

20. LOANS TO CUSTOMERS, NET (CONTINUED)

Analysis of loans before provisions for impairment by industry:

	31/12/2010 KM 000	31/12/2009 KM 000
Agriculture, forestry, mining and energetic	30,238	30,795
Trade	30,209	13,779
Individuals	9,871	7,795
Services, finances, sport and tourism	8,058	4,842
Transportation and telecommunications services	6,086	3,059
Building industry	5,346	6,045
Administrative and other public institution	5,264	4,594
Other	5,762	4,935
Less: Deferred fees	(581)	-
Total	**100,253**	**75,844**

Weighted average interest rate is presented as follows:

	31/12/2010		31/12/2009	
	KM 000	Annual interest rate %	KM 000	Annual interest rate %
Legal entities	90,391	6 – 10	68,073	6 – 10.5
Individuals	9,862	5.45 – 10.5	7,771	5.95 – 10.5
Total:	**100,253**		**75,844**	

21. FINANCIAL ASSETS AVAILABLE FOR SALE

	% ownership	31/12/2010 KM 000	31/12/2009 KM 000
Privredna banka Sarajevo d.d. Sarajevo	6.36	1,800	1,620
Bamcard d.o.o. Sarajevo	0.10	3	3
		1,803	1,623
Provisions for impairment		(36)	(33)
Total		**1,767**	**1,590**

Shares are estimate at fair value because of its trading on Sarajevo stock market d.d. Sarajevo from 2008. Changes on provisions for potential losses can be presented as follows:

	2010 KM 000	2009 KM 000
Balance at beginning of the period	**33**	**36**
Increase of provisions (Note 13)	3	17
Decrease of provisions (Note 13)	-	(20)
Total	**36**	**33**

22. OTHER ASSETS, NET

Structure of other receivables is:

	31/12/2010 KM 000	31/12/2009 KM 000
Assets available for sale (acquired collaterals)	153	323
Corporation tax receivables	-	6
Other assets	82	141
	235	470
Provisions for potential losses	(19)	(23)
Total	**216**	**447**

Changes in provisions for potential losses can be presented as follows:

	31/12/2010 KM 000	31/12/2009 KM 000
Balance at beginning of the period	**23**	**30**
Increase of provisions (Note 13)	13	162
Decrease of provisions (Note 13)	(17)	(13)
Decrease of provisions midst write offs	-	(156)
Total	**19**	**23**

23. TANGIBLE AND INTANGIBLE ASSETS

	Land KM 000	Building KM 000	Equipment KM 000	Software KM 000	Investments in progress KM 000	Total KM 000
Cost						
At 1 January 2010	**425**	**17,748**	**1,234**	**679**	**297**	**20,383**
- additions	-	-	215	38	503	756
- disposals	-	-	(117)	-	-	(117)
- transfer from/to	-	144	401	-	(545)	-
At 31 December 2010	**425**	**17,892**	**1,733**	**717**	**255**	**21,022**
Accumulated depreciation						
At 1 January 2010	**-**	**173**	**853**	**536**	**-**	**1,562**
- depreciation for 2010	-	232	130	37	-	399
- adjustments	-	-	11	-	-	11
- disposals	-	-	(107)	-	-	(107)
At 31 December 2010	**-**	**405**	**887**	**573**	**-**	**1,865**
Carrying amount						
31 December 2010	**425**	**17,487**	**846**	**144**	**255**	**19,157**
1 January 2010	**425**	**17,575**	**381**	**143**	**297**	**18,821**

24. DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	Interest rate (p.a.)	31/12/2010 KM 000	31/12/2009 KM 000
Kuwait Fund for Arabian economic development (KFAED)	2%	18,205	19,378
Ministry of Finance FB&H (Foundation for sustainable development)	6-month. Euro LIBOR+1%	3,805	-
Maturity of liabilities is as follows:			
In first year		3,698	2,969
In second		3,748	2,924
In period from 3-5 years		11,589	8,864
After 5 years		2,975	4,621
Total		**22,010**	**19,378**

On 30 April 1997, Bank signed loan Agreement with Kuwait fund for Arabic economic development (KFAED) in amount of KWD 6,100,000 with interest rate 1.5% and 0.5% other costs annually. Since 31 December 2008, Bank has signed 4 amendments on loan agreement.

The purpose of loans is financing of small and medium legal entities with maturity up to 7 years and with interest rate from 7.5% to 9.5% till 30 June 2006 and after that date from 7% - 9% annually. Government of Federation of Bosnia and Herzegovina is guarantor of executing Bank liabilities toward KFAED in accordance with guarantee contract approved by Federal Parliament, Decision number 20/99 dated on 21 July 1999 („Official Gazette FB&H“, number 38/99). As disclosed in Note 1, any change within the Bank ownership structure that is concerning percentage of ownership of Federation of Bosnia and Herzegovina, has to be approved by KFAED.

Supervisory Board and KFAED Board of directors had approved Memorandum of understanding dated on 14 November 2008, under which Bank started with accelerated repayments of loan 516, and new loan aprovement from Kuwait credit line have been suspended.

Principal should be repaid in KWD in 14 unequal semi-annual instalments beginning on 15 January 2009 and with maturity on 15 January 2016.

On 27 September 2010 the Bank signed subordinated contract with Federal Ministry of Finance in B&H and Sustainable Development Foundation (ODRAZ). Initially, funds have been approved by World Bank for project of improving finance accessibility to small and medium legal entities. Repayment of funds is reconciled with collection of approved loans to final customers (maximum granted period of 120 months).

25. LIABILITIES TOWARD GOVERNMENT OF FB&H („FUND“)

Based on agreement from 1 March 2005, between Council of Ministry of B&H and the Entity's Governments, the Bank signed on 22 August 2005 „Agreement for permanent fund managing“ with Ministry of Finance of Federation of Bosnia and Herzegovina (Ministry) that is amended on 31 August 2007. In accordance with Agreement, Bank suffers credit risk for loans granted from fund and calculates annual interest rate of 2%. As of the date of this report, no actual interest payments have been made. In accordance with the Contract, the value of the Fund is increased annually, for the amount of accrued interest. Out of the total amount outstanding, Bank placed KM 18,787 thousand on 31 December 2010 (KM 15,912 thousand on 31 December 2009). Under the Contract, the same is lasting until Bank has FBA licence and is doing its business in accordance with regular banks procedures.

26. LIABILITIES TOWARD CUSTOMERS

	31/12/2010 KM 000	31/12/2009 KM 000
Demand deposits:		
Individuals:		
In domestic currency	765	149
In foreign currency	132	128
	897	277
Legal entities:		
In domestic currency	8,483	4,206
In foreign currency	9,749	3,496
	18,232	7,702
Subtotal:	***19,129***	***7,979***
Term deposits:		
Individuals:		
In domestic currency	615	-
In foreign currency	1,801	629
	2,416	629
Legal entities:		
In domestic currency	29,136	6,438
In foreign currency	1,101	12,467
	30,237	18,905
Subtotal:	**32,653**	**19,534**
Total	**51,782**	**27,513**

Interest rate on demand deposits in domestic currency is 0.3% (2009-0.3%), respectively 0.2% (2009-0.2%) on demand deposits in foreign currency, unless otherwise stipulated by the contract. Interests on short-term deposits in 2010 had been from 2.2% till 5.00% (in 2009 1.80%-6.00%). In 2010, interest rates on long-term term deposits and deposits used as collaterals had been from 3% till 6%, respectively during 2009 from 2.46% till 5.81%.

Interest rates on demand deposits in KM and in foreign currency for individuals are 0.5%. Interest rates on short-term deposits for individuals and in EUR currency had been from 1.70% till 4% and for USD currency from 1.20% till 2.20%. In 2010 interest rates on long-term deposits in KM and EUR currency are 4.20% to 5.90% and for USD currency 2.50% till 3.10%. During 2010, on long-term deposits for individuals in all currencies (on period of 50 months) Bank agreed special interest rate of 6% annually.

As described in Note 1, in 2009 the Bank started intensively collected deposits. Till the date of audit, the Bank is not acquired licence from Agency for deposit insurance of FB&H which represents strategic expectations for the next period.

27. LONG TERM ACCRUALS

	31/12/2010 KM 000	31/12/2009 KM 000
Accrued income from repurchased loans (discount) – Ministry of Finance of FB&IH (Željezara Zenica)	1,304	-
Accrued income from repurchased loans (discount) – PBS	1,271	1,421
Accrued income – Fenix d.o.o. Kladanj	59	-
Total	**2,634**	**1,421**

28. OTHER LIABILITIES

	31/12/2010 KM 000	31/12/2009 KM 000
Managed funds difference (Note 33)	411	485
Deferred income – repossessed collaterals (Note 22)	142	323
Trade payables	124	50
Deferred income	113	29
Income tax liability	71	-
Other liabilities	12	51
Total	**873**	**938**

29. PROVISIONS FOR COMMITMENTS AND CONTINGENT LIABILITIES

	2010 KM 000	2009 KM 000
Balance at the beginning of the period	**247**	**167**
Increase of provision (Note 13)	476	587
Decrease of provision (Note 13)	(459)	(508)
Exchange rate differences	-	1
Balance at the end of the period	**264**	**247**

30. SHARE CAPITAL

Share capital structure can be presented as follows:

	31/12/2010 KM 000		31/12/2009 KM 000	
	Number of shares	**Ownership in %**	**Number of shares**	**Ownership in %**
Ordinary shares:				
Ministry of Finance FB&H	23,100	14.26	23,100	14.26
Koprom Handelsgesellschaft M.B.H.	16,176	9.98	-	-
Fond "Bošnjaci"	8,496	5.24	8,496	5.24
Pobjeda – Rudet d.d. Goražde	8,220	5.07	-	-
Privredna banka Sarajevo d.d.	-	-	18,130	11.19
Others (below 5% of ownership)	106,022	65.45	112,288	69.31
Total:	**162,014**	**100.00**	**162,014**	**100.00**
Preferred shares:				
Ministry of Finance FB&H	64,536	-	64,536	-
Others	38,596	-	38,596	-
Total:	**103,132**	**-**	**103,132**	**-**
Total share capital of the Bank:	**265,146**	**100.00**	**265,146**	**100.00**

On 31 December 2010 the nominal value of all shares is KM 100 (on 31 December 2009: KM 100).

The owners of preferred shares do not have guaranteed right to dividends. However, if dividend is declared, they have priority in actual receipt of dividend payments over ordinary shareholders. Preference shareholders also have preferential rights to return capital in case of liquidation.

The Bank considers that it operates in a single business segment, and a single geographical segment, that is the provision of banking services in Bosnia and Herzegovina. The Bank's shares are traded at the Sarajevo stock exchange (SASA).

31. COMMITMENTS AND CONTINGENT FINANCIAL LIABILITIES

Within regularly business activities, the Bank is participant in several court proceedings under refund of assets based on insurance instruments or not collected loan receivables, that includes interests and doubtful receivable costs from bank customers, as the other banks. The Management believes that pending court proceedings on 31 December 2010 will not have any significant losses for the Bank as consequence.

	31/12/2010 KM 000	31/12/2009 KM 000
Contingent liabilities		
Payable guarantees	4,358	4,822
Obligation guarantees	2,529	2,327
Total contingent liabilities	**6,887**	**7,149**
Commitments		
Unutilized approved loans	3,445	4,855
Framework agreements (risk free assets)	8,251	6,399
Total commitments	**11,696**	**11,254**
Total commitments and contingent financial liabilities	**18,583**	**18,403**

32. RELATED-PARTY TRANSACTIONS

Related parties, as defined by IAS 24, are those counter parties that represent:

- enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);
- associates – enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;
- key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and
- enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence.

This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

During analysing of each possible transaction with related party, attention is on essence of relationships not only on legal form.

	31/12/2010 KM 000	31/12/2009 KM 000
Receivables		
Loans approved to personnel and their familiarity members	1,365	325
Loans approved to shareholders with over 5% of ownership	589	-
Loans approved to Supervisory Board and Audit Committee and their familiarity members	130	225
	2,084	550
Liabilities		
Ministry of Finance FB&H	35,589	25,288
Deposits of persons associated with the Bank and their family members (Management, Supervisory Board and partners)	500	10
	36,089	25,298
Income		
Interest income from key personnel of Management and their familiarity members	22	105
Interest income from Supervisory Board and Audit Committee and their familiarity members	11	48
Income from approved loans to shareholders with 5%	35	-
	68	153
Expenses		
Interest expense Ministry of Finance FB&H	518	446

During regularly business activities it had realized several bank transactions with related parties. These transactions have been performed under commercial conditions and terms with using market rates.

32. RELATED-PARTY TRANSACTIONS (CONTINUED)

Fees paid to Management members on key positions are:

	2010 KM 000	2009 KM 000
Fees to directors and other key personnel of Management	310	195
Taxes and contributions	142	102
Fees to Supervisory Board	101	108
Fees to Audit Committee	39	39
Bonuses	2	-
Other Management fees	-	53
Subtotal	**594**	**497**

33. MANAGED FUNDS

Funds managed by the Bank on behalf of individuals, trusts and other institutions are not assets of the Bank and, therefore, are not included in its balance sheet.

	2010 KM 000	2009 KM 000
Liabilities		
Vlada Federacije Bosne i Hercegovine	10,385	19,257
Vlada Bosne i Hercegovine	893	893
Međunarodni MG	210	264
Fond za izgradnju Kantona Sarajevo	123	129
Kanton Sarajevo	60	215
UNIS Fagas d.o.o. Sarajevo	-	785
Total	**11,671**	**21,543**
Assets		
Loans approved to legal entities	9,970	19,410
Loans approved to individuals	1,290	1,648
Total	**11,260**	**21,058**
Current liabilities from managed funds activities (Note 28)	**411**	**485**

The Bank does not bear the risk for these placements and charges a fee for its services.

34. FINANCIAL INSTRUMENTS

Capital risk management

The Bank‘s objectives when managing capital, which is a broader concept than the equity on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets;
- To safeguard the Bank‘s ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

34. FINANCIAL INSTRUMENTS (CONTINUED)

Capital risk management (continued)
The Bank expects to maintain its debt to capital ratio. Solvency indicators were as follows:

	31/12/2010 KM 000	31/12/2009 KM 000
Debt (i)	105,576	70,533
Cash and cash equivalents	(22,415)	(9,232)
Net debt	83,161	61,301
Capital (ii)	43,541	42,255
Net debt to equity ratio	**1.91**	**1.45**

Debt (i) is defined as liabilities to banks and clients presented in detail in Notes 24, 25 and 26. Capital (ii) includes total share equity, share premium and accumulated gain. Capital adequacy and the use of regulatory capital are monitored daily by the Bank‘s management, employing techniques based on the guidelines developed by Banking Agency of Federation of Bosnia and Herzegovina (FBA) for supervisory purposes. The required information is filed with the FBA on a quarterly basis.

Banking Agency request from all banks: (a) to maintain minimum amount paid share capital of the bank in amount of KM 15 millions; and (b) to maintain ratio net-capital and weighted assets risk as minimum 12%.

The Bank‘s net capital is divided into two tiers:

- Tier 1 capital or Core Capital: share capital (net of any book values of the treasury shares), share premium, retained earnings and reserves created by appropriations of retained earnings; and
- Tier 2 capital or Supplementary Capital: qualifying subordinated loan capital, other share capital, general reserves for credit losses and net profit of current year.

The risk-weighted assets are measured by means of a hierarchy of four weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarizes the composition of regulatory capital and the ratios of the Bank for the years ended 31 December.

34. FINANCIAL INSTRUMENTS (CONTINUED)

Capital risk management (continued)
During those two years the Bank complied with all of the externally imposed capital requirements related to capital:

	2010 KM 000	2009 KM 000
Tier 1 capital		
Share capital	23,895	23,895
Legislative reserves	13,585	13,556
Accumulated profit	2,025	1,361
Intangible assets	(144)	(144)
Total qualifying Tier 1 Capital	***39,361***	***38,668***
Tier 2 capital		
Other share capital	2,620	2,620
General reserves	1,614	1,191
Net profit of the current year	1,416	824
Total qualifying Tier 2 Capital	***5,650***	***4,635***
Total net-capital	**45,011**	**43,303**
Risk weighted assets	**127,745**	**104,208**
On Balance sheet	117,919	93,278
Off Balance sheet	9,826	8,235
Capital adequacy ratio	**33.52%**	**38.80%**

Significant accounting policies
Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

Categories of financial instruments

	31/12/2010 KM 000	31/12/2009 KM 000
Financial assets		
Cash and cash equivalents (including Obligatory reserves with Central Bank)	22,415	9,232
Placements with other banks	14,861	15,172
Loans and advances, net	94,472	70,132
Financial assets available for sale	1,766	1,590
	133,514	**96,126**
Financial liabilities		
At amortized cost	108,210	71,954

Financial risk management objectives
The Bank‘s Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Bank through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk.

34. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk
The Bank's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (see below). Market risk exposures are supplemented by sensitivity analysis. There has been no change to the Bank's exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency risk management
The Bank undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts. The carrying amounts of the Bank's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	31/12/2010 KM 000	**31/12/2009 KM 000**	**31/12/2010 KM 000**	**31/12/2009 KM 000**
EUR	27,091	17,816	18,917	15,843
KWD	13,370	15,876	18,245	19,419
USD	6,597	6,602	1,849	2,444
Other	15	-	-	-

Foreign currency sensitivity analysis
The Bank is mainly exposed to EUR. Since Convertible Mark (KM) is pegged to EUR, the Bank is not exposed to risk of change of EUR exchange rate EUR 1 = KM 1.95583). Change in the exchange rate would require the amendments of the law and approval by Parliamentary Assembly of Bosnia and Herzegovina. The following table details the Bank's sensitivity to a 10% increase and decrease in KM against USD and KWD. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

	Effect USD ('000 KM)		Effect KWD ('000 KM)	
	31/12/2010	**31/12/2009**	**31/12/2010**	**31/12/2009**
Profit or (loss)	475	451	(488)	(328)

The analysis outlined above is used on open foreign currency position of the Bank, which includes all asset and liability items. If the currency position of a foreign currency is “long” (assets exceeding liabilities) and the exchange rate for this currency increases in relation to the KM, the Bank will experience a foreign exchange gain. If the currency position of a foreign currency is “long” (assets exceeding liabilities) and the exchange rate for this currency decreases in relation to the KM, the Bank will experience a foreign exchange loss. If the currency position of a foreign currency is “short” (liabilities exceeding assets) and the exchange rate for this currency increases in relation to KM, the Bank will experience a foreign exchange loss. If the currency position of a foreign currency is “short” (liabilities exceeding assets) and the exchange rate for this currency decreases in relation to KM, the Bank will experience a foreign exchange gain.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank monitors its foreign exchange (FX) position for compliance with the regulatory requirements of the Federal Banking Agency established in respect of limits on open positions. The Bank seeks to match assets and liabilities denominated in foreign currencies to avoid foreign currency exposures.

34. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk management
The Bank is not exposed to interest rate risk because borrow assets by fixed interest rates. The risk is managed by the Bank by maintaining an appropriate mix between fixed and floating rate borrowings. The Bank's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section.

Interest rate sensitivity analysis
The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the reporting period date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting period date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Bank'loss for the year ended 31 December 2010 would increase / decrease by KM 12 thousand.

Credit risk management
The Bank takes on exposure to credit risk which is the risk upon credit approval and when counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

*Commitments arising from the issuance of letters of credit***.** Documentary letters of credit, which are written irrevocable undertakings by the Bank on behalf of a customer (mandatory) authorising a third party (beneficiary) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under open letters of credit are considerably less than the commitments under issued guarantees or stand-by letters of credit. However, the Bank records provisions against these instruments on the same basis as is applicable to loans.

Commitments to extend credit, unused loan commitments, unutilised overdrafts and approved overdraft loans. The primary purpose of commitments to extend credit is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credits in the form of loans, guarantees or stand-by letters of credit. Commitments to extend credit issued by the Bank represent issued loan commitments or guarantees, unused portions of and approved overdrafts loans. Commitments to extend credit or guarantees issued by the Bank, that are contingent upon customers maintaining specific credit standards (including the condition that a customer's solvency does not deteriorate) are revocable commitments. Irrevocable commitments represent unused portions of authorised loans and approved overdraft facilities because they result from contractual terms and conditions in the credit agreements.

34. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk management (continued)

Financial assets

31 December 2010	Total gross carrying amount KM 000	Unimpaired assets KM 000	Individually impaired assets KM 000	Impairments for losses (individually) KM 000	Impairments for losses (collectively) KM 000	Total net carrying amount KM 000
Cash and balances with banks	15,178	15,178	-	-	-	15,178
Obligatory reserve with Central Bank	7,237	7,237	-	-	-	7,237
Placements with other banks	14,954	13,136	1,818	(92)	(1)	14,861
Loans and receivables	100,253	72,134	28,119	(4,430)	(1,351)	94,472
Financial assets available for sale	1,802	1,802	-	-	(36)	1,766
	139,424	**109,487**	**29,937**	**(4,522)**	**(1,388)**	**133,514**
31 December 2009						
Cash and balances with banks	2,125	2,125	-	-	-	2,125
Obligatory reserve with Central Bank	7,107	7,107	-	-	-	7,107
Placements with other banks	15,266	13,448	1,818	(92)	(2)	15,172
Loans and receivables	75,844	49,263	26,581	(4,816)	(896)	70,132
Financial assets available for sale	1,623	1,623	-	-	(33)	1,590
	101,965	**73,566**	**28,399**	**(4,908)**	**(931)**	**96,126**

Credit exposure and collateral

31 December 2010		**Credit risk exposure**		
Description	**Loans KM 000**	**Unutilized credit assets and unutilized overdraft limits KM 000**	**Commitments / guarantees KM 000**	**Fair value of collateral KM 000**
Legal entities	92,209	3,445	6,887	303,839
Individuals	9,862	-	-	25,491
Total	**102,071**	**3,445**	**6,887**	**329,330**
31 December 2009				
Legal entities	69,984	4,810	7,149	218,674
Individuals	7,795	-	-	19,832
Total	**77,779**	**4,810**	**7,149**	**238,506**

Fair value of collateral

	31/12/2010 KM 000	**31/12/2009 KM 000**
Assets	306,430	224,017
Guarantees	16,469	9,047
Deposits	6,431	5,442
	329,330	**238,506**

34. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk management
Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with regulations laid down by regulatory bodies of Bosnia and Herzegovina. The table below provides an analysis of assets and liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdown's, guarantees and from margin and other calls on cash-settled derivatives. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Liquidity and interest risk tables
The following tables detail the Bank's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank can be required to pay. The table includes both interest and principal cash flows.

The table of financial assets have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Bank anticipates that the cash flow will occur in a different period.

34. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk management (continued)

Financial liabilities	Weighted average effective interest rate	Less than 1 month KM 000	1-3 months KM 000	3 months till 1 year KM 000	1-5 years KM 000	5+ years KM 000	Total KM 000
31/12/2010	%						
Non-interest bearing	-	3,470	-	-	-	-	3,470
Fixed interest rate instruments	2.43	10,054	2,060	25,064	25,763	33,979	96,920
Variable interest rate instruments	1.57	7,510	14	372	2,644	1,055	11,595
		21,034	**2,074**	**25,436**	**28,407**	**35,034**	**111,985**
31/12/2009							
Non-interest bearing	-	2,972	-	354	-	-	3,326
Fixed interest rate instruments	2	-	1,559	1,593	12,691	30,835	46,678
Variable interest rate instruments	4.18	6,596	6,456	10,990	629	-	24,671
		9,568	**8,015**	**12,937**	**13,320**	**30,835**	**74,675**
Financial assets							
31/12/2010							
Non-interest bearing	-	22,553	-	-	1,766	-	24,319
Fixed interest rate instruments	8.5	4,773	8,479	23,641	69,495	38,029	144,417
Variable interest rate instruments	0.28	12,906	-	-	-	-	12,906
		40,232	**8,479**	**23,641**	**71,261**	**38,029**	**181,642**
31/12/2009							
Non-interest bearing	-	346	-	-	1,590	-	1,936
Fixed interest rate instruments	10.50	15,602	12,097	20,981	41,259	11,693	101,632
Variable interest rate instruments	0.55	13,374	-	-	-	-	13,374
		29,322	**12,097**	**20,981**	**42,849**	**11,693**	**116,942**
Difference 31/12/2010		**19,198**	**6,405**	**(1,795)**	**42,854**	**2,995**	**69,657**
Difference 31/12/2009		**19,754**	**4,082**	**8,044**	**29,529**	**(19,142)**	**42,267**

35. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board on 19 January 2011:

Signed on behalf of the Bank

Hamid Pršeš	Enisa Hulusić
Director	Executive director for accounting, analyse and IT