BOR Banka d.d. Sarajevo

Financial statements for the year ended
31 December 2009 prepared
in accordance with International
Financial Reporting Standards
as modified by regulatory
requirements of the Banking Agency of
Federation of Bosnia and Herzegovina
and Independent Auditors' Report

Contents

Pursuant to the Law on Accounting and Audit of Federation of Bosnia and Herzegovina (Official Gazette No. 32/05), the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) which give a true and fair view of the state of affairs and results of the BOR Bank 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 Accounting and Auditing Law of Federation of Bosnia and Herzegovina. 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 19
71 000 Sarajevo
Bosnia and Herzegovina

9 February 2010

Independent auditors' 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 43, which comprise the balance sheet as of 31 December 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Bank as of 31 December 2008 were audited by another auditor whose report dated 9 March 2009 expressed an qualified opinion on those statements.

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 (IFRS) as modified by regulatory requirements of the Banking Agency of Federation of 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 Bank'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 Bank'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 accompanying balance sheet present fairly, in all material respects, the financial position of the Bank as at 31 December 2009 in accordance with International Financial Reporting Standards, as modified by regulatory requirements of the Banking Agency of Federation of Bosnia and Herzegovina.

Revik d.o.o.
Sarajevo, Bosnia and Herzegovina
9 February 2010

Statement of Income

for the year ended 31 December 2009

(all amounts are expressed in thousands of KM)

	Notes	2009	2008
Interest income	6	5,414	5,029
Interest expense	7	(1,300)	(1,022)
Net interest income		**4,114**	**4,007**
Fee and commission income	8	729	800
Fee and commission expense		(56)	(46)
Net fee and commission income		**673**	**754**
Administrative expenses	12	(2,572)	(2,986)
Depreciation of property, plant and equipment and intangible assets	22	(346)	(378)
Foreign exchange loss	9	(8)	(227)
Operating Expense		**(2,926)**	**(3,591)**
Other operating income	11	**627**	**437**
PROFIT BEFORE IMPAIRMENT LOSSES, PROVISIONS AND INCOME TAX		**2,488**	**1,607**
Impairment losses and provisions	13	(1,717)	(838)
Recoveries	12	170	254
PROFIT BEFORE INCOME TAX		**941**	**1,023**
Income tax expense	14	(117)	(123)
NET PROFIT FOR THE YEAR		**824**	**900**
Earnings per share (KM)	15	**5,09**	**5,56**

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

Balance sheet

as at 31 December 2009

(all amounts are expressed in thousands of KM)

	Notes	31 December 2009	31 December 2008
ASSETS			
Cash and cash equivalents	16	2,125	3,200
Obligatory reserve with Central Bank	17	7,107	6,089
Placements with other banks	18	15,172	20,639
Loans and advances to customers	19	70,132	51,890
Financial assets available for sale	20	1,590	1,746
Other assets	21	447	420
Fixed and intangible assets	22	18,821	18,956
TOTAL ASSETS		**115,394**	**102,940**
LIABILITIES			
Due to banks and other financial institutions	23	19,378	27,057
Due to governments	24	23,642	22,284
Due to customers	25	27,513	9,804
Long term accruals	26	1,421	-
Provisions for contingent liabilities and commitments	29	247	167
Other liabilities	27	938	1,279
TOTAL LIABILITIES		**73,139**	**60,581**
SHAREHOLDERS' EQUITY			
Share capital		26,515	26,515
Reserves and retained earnings		15,740	15,834
TOTAL SHAREHOLDER'S EQUITY		**42,255**	**42,349**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**115,394**	**102,940**
FINANCIAL COMMITMENTS AND CONTINGENCIES	28	**18,403**	**13,843**

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

Signed on behalf of BOR Banka d.d. Sarajevo on 9 February 2010:

Director	Executive Director for Accounting, Analyzes and IT
Hamid Piršeš	Enisa Hulusić

Statement of cash flows

for the year ended 31 December 2009

(all amounts are expressed in thousands of KM)

	2009	2008
Operating Activities		
Net Income	824	900
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	346	378
Impairment losses and provisions	1,717	838
Loss on sale or disposal of property, plant and equipment	1	11
Changes in operating assets and liabilities:		
Net decrease in due from Central Bank	(1,018)	503
Net decrease / (increase) in placements with other banks, before impairment losses	5,470	2,728
Net (increase) in loans and receivables, before impairment losses	(20,416)	(8,085)
Net decrease / (increase) in other assets, before impairment losses	-	199
Net increase in demand and term deposits	17,709	2,258
Long term accruals	1,421	-
Net increase in other liabilities	1,017	1,742
NET CASH GENERATED/USED IN OPERATING ACTIVITIES	**7,071**	**1,472**
Investing Activities		
Net increase in assets available for sale, before impairment losses	251	-
Net purchases of property and equipment	(563)	(444)
Proceeds from sales of property and equipment	-	2
NET CASH USED IN INVESTING ACTIVITIES	**(312)**	**(442)**
Financing Activities		
Net (loss) from borrowings	(7,679)	(694)
Dividends paid	(157)	(306)
NET CASH (USED) BY FINANCING ACTIVITIES	**(7,836)**	**(1,000)**
NET INCREASE / (DECREASE) IN CASH AN CASH EQUIVALENTS	**(1,075)**	**30**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**3,200**	**3,170**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**2,125**	**3,200**

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

Statement of changes in shareholders' equity

for the year ended 31 December 2009

(all amounts are expressed in thousands of KM)

	Share capital	**Fair Value reserves**	**Revaluation reserve**	**Other reserves**	**Retained earnings**	**Total**
Balance as at 31 December 2007	**26,515**	**-**	**13,812**	**10**	**762**	**41,099**
Changes in fair value of financial assets available for sale	-	671	-	-	-	671
Dividends paid	-	-	-	-	(306)	(306)
Profit for the year	-	-	-	-	900	900
Balance as at 31 December 2008	**26,515**	**671**	**13,812**	**10**	**1,341**	**42,349**
Changes in fair value of financial assets available for sale	-	(410)	-	-	-	(410)
Revalorization effects of fixed and intangibles	-	-	(351)	-	-	(351)
Transfer (from)/to	-	-	(167)	-	167	-
Dividends paid	-	-	-	-	(157)	(157)
Profit for the year	-	-	-	-	824	824
Balance as at 31 December 2009	**26,515**	**261**	**13,294**	**10**	**2,175**	**42,255**

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

(all amounts are expressed in thousands of KM)

1. GENERAL

History

BOR Banka d.d. Sarajevo, Obala Kulina Bana 19 (the “Bank”) is registered in Cantonal Court in Sarajevo in 1995. Its major objective is to support developing and reconstruction processes in Bosnia and Herzegovina.

The Bank’s main operations as envisaged by the Bank’s Statute are as follows:

1. lending and borrowing, financial lease,
2. collecting of deposits,
3. giving all kinds of money guarantee,
4. buying and selling capital market and money market instruments,
5. payment transaction services and money transfer,
6. buying and selling of foreign currencies,
7. issuing and management of payment products (including credit cards, travel and banker cheques),
8. managing securities,
9. financial management services,
10. buying and selling market securities.

During 2008 (and previous years) the Bank had a ban on collection of deposits by the 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 on 30 03 2009. By Decision No. 04-772/09 dated 30 3 2009 the Banking Agency of the FB&H agreed 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 03 09 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, the Bank has started more intensive collection of deposits.

Supervisory Board

Esad Hrvačić	Chairman
Muniba Eminović	Member
Nezim Halilović	Member
Josip Sočo	Member
Hajrudin Hadžimehanović	Member

Management Board

Hamid Pršeš	Director
Bedina Jusičić-Musa	Executive Director for Placement
Enisa Hulusić	Executive Director for Accounting, Analyzes and IT
Ajna Šehović	Executive Director for Assets
Muhamed Šehbajraktarević	Executive Director for Legal, HR and Support Services

(all amounts are expressed in thousands of KM)

1. GENERAL (CONTINUED)

Audit Committee

Hasida Gušić	Chairman
Tihomir Čurak	Member
Senad Herenda	Member
Ahmet Alibašić	Member
Edin Tokić	Member

Chief Internal Auditor – Šefika Kreso

The shareholding structure is as follows:

	31 December 2009			31 December 2008		
Shareholders-ordinary shares	**No. of shares**	**Amount KM '000**	**%**	**No. of shares**	**Amount KM '000**	**%**
Ministry of Finance FBiH	23,100	2,310	14.26	53,100	5,310	32.77
Privredna banka d.d. Sarajevo**	18,130	1,813	11.19	-	-	-
Fond "Bošnjaci"	8.496	850	5.24	850	85	5.24
Other*	112,288	11,229	69.31	108,064	10,806	61.99
Total ordinary shares	**162,014**	**16,202**	**100.00**	**162,014**	**16,201**	**100.00**
Shareholders-preference shares						
Ministry of Finance FBiH	64,536	6,454	-	76,936	7,694	-
Other*	38,596	3,859	-	26,196	2,620	-
Total preference shares	**103,132**	**10,313**	**-**	**103,132**	**10,314**	**-**
Total	**265,146**	**26,515**	**100.00**	**265,146**	**26,515**	**100.00**

*Individuals and legal entities holding less than 5% of shares each.

** By Decision of the Banking Agency of the FB&H No. 04-3-1985-1/09 dated 19 08 2009 Privredna banka d.d. Sarajevo was given a right to acquire equity shares of up to 15 % of the Bank's equity capital.

As of 31 December 2009 nominal value of all shares is KM 100 (31 December 2008: KM 100).

The preference shareholders have no guaranteed dividend rights. 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).

2. ADOPTION OF NEW STANDARDS AND REVISED STANDARDS

2.1 Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

IFRS 8 “Operating Segments” (effective for annual periods beginning on or after 1 January 2009),

Amendments to IFRS 7 “Financial Instruments: Disclosures” - Improving disclosures about financial instruments (effective for annual periods beginning on or after 1 January 2009),

Amendments to IFRS 1 “First-time Adoption of IFRS” and IAS 27 “Consolidated and Separate Financial Statements” – Cost of investment in a subsidiary, jointly-controlled entity or associate (effective for annual periods beginning on or after 1 January 2009),

Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 22 May 2008 (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2009),

Amendments to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements” – Puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on or after 1 January 2009),

IAS 1 (revised) “Presentation of Financial Statements” – A revised presentation (effective for annual periods beginning on or after 1 January 2009),

IAS 23 (revised) “Borrowing Costs” (effective for annual periods beginning on or after 1 January 2009),

Amendments to IFRS 2 “Share-based Payment” – Vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009),

Amendments to IFRIC 9 “Reassessment of Embedded Derivatives” and IAS 39 “Financial Instruments: Recognition and Measurement” - Embedded Derivatives (effective for annual periods ending on or after 30 June 2009),

IFRIC 13 “Customer Loyalty Programmes” (effective for annual periods beginning on or after 1 July 2008),

IFRIC 15 “Agreements for the Construction of Real Estate” (effective for annual periods beginning on or after 1 January 2009),

IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” (effective for annual periods beginning on or after 1 October 2008),

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Company’s accounting policies.

2.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013),

IFRS 3 (revised) "Business Combinations" (effective for annual periods beginning on or after 1 July 2009),

IFRS 1 (revised) "First-time Adoption of IFRS" (effective for annual periods beginning on or after 1 July 2009),

Amendments to IFRS 1 "First-time Adoption of IFRS" - Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010),

Amendments to IFRS 2 "Share-based Payment" - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010),

Amendments to IAS 24 "Related Party Disclosures" - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011),

Amendments to IAS 27 "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009),

Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010),

Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" - Eligible hedged items (effective for annual periods beginning on or after 1 July 2009),

Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010),

Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011),

IFRIC 17 "Distributions of Non-Cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009),

IFRIC 18 "Transfers of Assets from Customers" (effective for transfer of assets from customers received on or after 1 July 2009),

IFRIC 19 "Extinguishing Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010).

The Company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Company anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

As required by local legislation, the Bank prepares financial statements in accordance with International Financial Reporting Standards (IFRSs) as published by the International Accounting Standards Board and as modified by regulatory requirements of the Banking Agency of Federation of Bosnia and Herzegovina (the 'FBA') with respect to the calculation of provision for impairment of financial instruments. The FBA rules require banks to calculate minimum general allowance for impairment of assets available for sale at 2% of the gross amount, as well as of loans and advances to customers based on a matrix system, which is based on number of days overdue as follows:

Days past due			
From	**To**	**Category**	**% provisions**
0	30	A	2%
31	50	B	5%
51	70	B	10%
71	90	B	15%
91	120	C	16%
121	140	C	20%
141	160	C	30%
161	180	C	40%
181	210	D	41%
211	230	D	45%
231	250	D	50%
251	270	D	60%
271	above	E	100%

Preceding criteria serves as starting criteria in determination of risk classification which is corrected at the end of each month by the commission for classification depending on other criteria's defined by classification methodology of BOR Bank.

Interest income is suspended when it is considered that recovery of the income is unlikely. Suspended interest is recognized as income when collected.

The financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, which are reported at fair value. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of presentation (Continued)

International Financial Reporting Standards as published by the International Accounting Standards Board issued on 31 March 2004 have been officially translated and adopted in Bosnia and Herzegovina. Amendments and changes to standards issued after that date have not been officially translated. As stated in Note 2, the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2007. Management believes that such adoption has no material impact on these financial statements being prepared in accordance with the regulations in force in Bosnia and Herzegovina.

The financial statements are prepared on an accrual basis of accounting, under the going concern assumption. The preparation of financial statements 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.

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

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 income’ and ‘interest expense’ in the income statement using the effective interest rate.

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 recognised 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 straight line method over loans life.

Employee benefits

On behalf of its employees, the Bank pays pension and health insurance on and from salaries, which are calculated on the gross salary paid, as well as taxes, which are calculated on the net salary paid. The Bank is paying the above contributions into the Pension and Health Fund of the Entity, 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.

Retirement severance payments

According to the local legislation and internal Rulebook on employment, the Bank makes retirement severance payments of minimum 3 average monthly salaries paid in the period of the last three months.

The Bank records the retirement severance payments when they are paid. The Bank did not have retirement severance payments in 2009 and 2008.

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 balance sheet 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet 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.

Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash and balances with the Central Bank ('CBBH').

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.

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 of those classified as at fair value through profit or loss. 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. For current operations, the Bank uses three categories of financial assets, for which basis of accounting is disclosed below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

AFS financial assets

Equity shares and redeemable notes held by the Bank are classified as AFS and are stated at fair value or cost if the fair value cannot be reliably measured. 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 balance sheet 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.

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) through 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'.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date in accordance with the regulatory requirements of the Banking Agency of Federation of Bosnia and Herzegovina (the 'FBA').

De recognition 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments issued by the Bank (Continued)

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.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised 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.

Property, plant and equipment

Fixed and intangible assets are measured at cost or revaluation amount less accumulated depreciation and accumulated impairment losses, if any. 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.

Some classes of fixed and intangible assets are measured at cost less accumulated depreciation and accumulated impairment losses, if any. 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 and equipment are included in the statement of income in the period in which they occur.

(all amounts are expressed in thousands of KM)

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

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 and based upon the application of the following annual percentages to historical costs:

	2009	2008
Buildings	1.3%	1.3%
Furniture and other equipment	7% - 20%	7% - 20%
Computers	33%	33%
Software	20%	20%

Revaluation reserves

Revaluation reserves included in equity in respect of revalued items of fixed assets may be transferred directly to retained earnings when the assets are derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of.

Repossessed collateral

The Bank occasionally acquires real estate in settlement of certain loans and advances that have been written off. The real estate is stated at the lower of its fair value and the outstanding loan amount. Gains on disposal are recognised in the income statement upon the sale of repossessed collateral.

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 balance sheet 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. 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 statement of income for the period.

The Bank values its assets and liabilities by middle rate of Central Bank of Bosnia and Herzegovina valid at the date of balance sheet. 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 2009	EUR 1 = KM 1.95583	USD 1 = KM 1.364088
31 December 2008	EUR 1 = KM 1.95583	USD 1 = KM 1.387310

For financial assets and liabilities denominated in KWD, the Bank uses rates as published by the Kuwait National Bank

31 December 2009.	KWD 1 = KM 4.714919
31 December 2008.	KWD 1 = KM 4.997928

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

Provisions are recognised 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.

Regulatory requirements

The Bank is subject to the regulatory requirements of the Banking Agency of federation of Bosnia and Herzegovina. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off balance sheet commitments and forming allowances to cover credit risk, liquidity, interest rate and foreign currency position. At year end the Bank was substantially in compliance with all regulatory requirements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINITY

In the application of the Bank's accounting policies, which are described in note 3, the directors are required to make judgments, 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 recognised 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 balance sheet 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, plant and equipment

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

Fair value of financial assets and liabilities

In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used:

Cash balances with the Central bank

The carrying values of cash and balances with the Central bank are generally deemed to approximate their fair value.

Loans and advances to customers

As described at Note 3 above, in paragraph with heading impairment of financial assets, the Bank assessed indicators for impairment by applying the loss percentages to aged loans, grouped by the number of days overdue as defined by FBA.

Amounts due to banks and customers

The fair value of term deposits payable on demand represents the carrying value of amounts payable on demand as at the balance sheet date. The fair value of term deposits at variable interest rates approximates their carrying values as at the balance sheet date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using rates currently offered for deposits of similar remaining maturities.

5. GLOBAL MARKET CRISIS

Due to the current global crisis in the market and its effects on the local market in Bosnia and Herzegovina, the Bank will probably operate in more difficult and uncertain economic environment in 2009, and possibly beyond. 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.

(all amounts are expressed in thousands of KM)

6. INTEREST INCOME

	2009	2008
Companies	4,653	3,663
Individuals	649	750
Domestic banks	55	307
Foreign banks	54	282
Other	3	27
	5,414	**5,029**

7. INTEREST EXPENSE

	2009	2008
Banks and other financial institutions	404	541
Government	446	428
Companies	196	53
Banks	250	-
Individuals	4	-
	1,300	**1,022**

8. FEE AND COMMISSION INCOME

	2009	2008
Managed fund activities	478	543
Guarantees	243	242
FX transactions	8	15
	729	**800**

9. FOREIGN EXCHANGE LOSS, NET

	2009	2008
Gains on foreign exchange transactions	4,132	1,878
Loss on foreign exchange transactions	(4,140)	(2,105)
	(8)	**(227)**

(all amounts are expressed in thousands of KM)

10. ADMINISTRATIVE EXPENSES

	2009	2008
Personnel expenses	1,289	1,332
Other personnel expenses	315	444
Professional service	218	373
Supervisory Board & Audit Committee	147	159
Energy	135	151
Taxes and contributions	94	92
Material expenses	54	72
Maintenance	63	53
Telecommunication expense	48	48
Representation and marketing expense	73	36
Donation	3	23
Membership	21	22
Insurance premiums	23	22
Other expenses	89	159
	2,572	**2,986**

The Bank does not have pension arrangements separate from Bosnia and Herzegovina pension system. This system requires that current contributions by the employer be calculated as a percentage of current gross salary payments and taxes on net salary; these expenses are charged to the profit and loss statement in the period the related compensation is earned by the employee.

The average number of personnel employed by the Bank during the period ended 31 December 2009 and the year ended 31 December 2008 was 48 and 45 respectively.

11. OTHER INCOME

	2009	2008
Income from purchase of loans from PBS	209	
Penalty interest	228	236
Heating service	132	113
Other income	58	88
	627	**437**

12. RECOVERIES

	2009	2008
Principal	73	133
Interest	47	120
Other	50	1
	170	**254**

(all amounts are expressed in thousands of KM)

13. IMPAIRMENT LOSSES AND PROVISIONS

	2009	**2008**
Impairment losses on placements with other banks (Note 18)	(3)	(10)
Impairment losses on loans (Note 19)	2,174	935
Correction of provision for possible losses on loans given to clients – purchase of loans from PBS (Note 19)	(679)	-
Impairment losses on assets available for sale (Note 20)	(3)	12
Impairment losses on other assets (Note 21)	149	11
(Release of) / additions to provision for commitments and contingent liabilities (Note 29)	79	(110)
	1,717	**838**

14. INCOME TAX

a) Year ended 31 December 2008

Profit before income tax	**1,023**
Non-deductible expenses	203
Basis for taxation	***1,226***
Income tax at the rate of 10%	123
Income tax liability	**123**

b) Year ended 31 December 2009

Profit before income tax	**941**
Non-deductible expenses	229
Basis for taxation	**1,170**
Income tax at the rate of 10%	117
Income tax liability	**117**

15. EARNINGS PER SHARE

	2009	**2008**
Net profit, KM	824,000	900,000
Weighted average number of ordinary shares outstanding	162,014	162,014
Basic earnings per share, KM	**5.09**	**5.56**

(all amounts are expressed in thousands of KM)

16. CASH AND CASH EQUIVALENTS

	31. December 2009	31. Decembar 2008
Current account with the Central bank of Bosnia and Herzegovina	1,784	3,079
Cash on hand in domestic currency	208	90
Cash on hand in foreign currency	133	31
	2,125	**3,200**

17. OBLIGATORY RESERVE AT CENTRAL BANK

	31. December 2009	31. December 2008
Obligatory reserve*	2,842	6,089
Specific reserve with the Article 42b of the Law on Banks (Note 26)	4,265	-
	7,107	**6,089**

*Minimum obligatory reserve as of 31 December 2009 and 31 December 2008 is calculated in amount of 7% and 14% respectively of the average amount of total deposits and the borrowings for each working day during 10 calendar days following the period of maintaining the obligatory reserve.

(all amounts are expressed in thousands of KM)

18. PLACEMENTS WITH OTHER BANKS

	31. December 2009	31. Decembar 2008
Loans to banks		
Una Banka Bihać	1,818	1,804
Vakufska Banka d.d Sarajevo	32	93
	1,850	1,897
Demand and time deposits with other banks		
Demand deposits		
Foreign currency		
Deutsche Bank AG, Germany	3,048	3,464
National Bank of Kuwait, Kuwait	3,029	5,318
AHLI United Bank London, United Kingdom	1,557	148
Zagrebačka Banka, Croatia	978	160
Raiffeisen Zentralbank AG, Austria	80	30
KBC Brussels, Belgum	45	40
	17	9,160
Time deposits	8,754	
Foreign currency		
AHLI United Bank London, United Kingdom	4,621	6.997
Deutsche Bank AG, Germany	-	2.636
	4,621	9,633
Domestic currency		
ABS Banka d.d.	41	46
	41	46
Total placements with other Banks, gross	15,266	20,736
Provision for impairment	(94)	(97)
	15,172	**20,639**

The interest rate for placements in EUR was 0.15% – 0.25% p.a. and 0.25% – 2.30% p.a., for placements in USD 0.10% - 0.10% p.a. and 0.02% - 4.00% p.a. and for placements in KWD 0.25% - 2.50% p.a. and 0.50% - 4.00% as at 31 December 2009 and 31 December 2008, respectively.

The movements in the provision for impairment of placements with other banks are summarized as follows:

	2009	2008
Balance at the beginning of period	**97**	**109**
Provisions (Note 13)	1	216
Reversal of provisions (Note 13)	(4)	(226)
Forex	-	(2)
Balance at the end of period	**94**	**97**

(all amounts are expressed in thousands of KM)

19. LOANS AND ADVANCES TO CUSTOMERS

	31. December 2009	31. December 2008
Short-term loans		
Legal entities	20,834	9,149
Citizens	18	66
Current portion of long-term loans	7,816	12,385
Total short-term loans	*28,668*	*21,600*
Long-term loans		
Legal entities	47,239	39,125
Citizens	7,753	8,168
(Current portion of long-term loans)	(7,816)	(12,385)
Total long-term loans	*47,176*	34,908
Total loans before provisions	*75,826*	*56,508*
Provision for impairment	(5,712)	(4,618)
	70,132	**51,890**

On 13 2 2009 the Contract between Privredna banka d.d. Sarajevo (PBS) and Bor banka d.d. Sarajevo (BANK) has been signed on sale of credit line funds by PBS to the BANK that PBS has acquired on the basis of the Decision on status of receivables from passive sub-balance of enterprise during privatization and overall settlement with PBS (Official Gazette of the FB&H No. 38/08) and Agreement on nonmonetary settlement of receivables of PBS with the Federal Ministry of Finance No.: 04-14-7895/09) dated 19 12 2008. The parties agreed to sale funds that are the subject of this Contract in a way that funds in total amount of KM 5.736.030,80 will be transferred into the ownership of the BANK under price the BANK is paying to PBS in amount of KM 4.500.000.

Short-term loans are granted for periods of 1 to 365 days. The majority of short-term loans in domestic currency are granted to clients for working capital financing. Long-term loans are mostly granted to the legal entities for different investment projects and permanent working capital.

The movements in the provision for impairment of loans are summarized as follows:

	2009	2008
Balance at the beginning of period	**4,618**	**5,692**
Provisions charged (Note 13)	3,465	3,645
Provisions charged – purchase of loans from PBS (Note 13)	679	-
Reversal of provision (Note 13)	(1,970)	(2,710)
Write-offs	(773)	(2,103)
FOREX	(307)	96
Balance at the end of period	**5,712**	**4,618**

Total amount of non-performing loans on which interest was suspended as at 31 December 2009 and 31 December 2008 KM 8,086 thousand and KM 7,264 thousand, respectively.

(all amounts are expressed in thousands of KM)

19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	31. December 2009	31. December 2008
Agriculture, forestry, mining and energy	30,795	22,291
Trade	13,779	10,361
Citizens	7,795	8,232
Construction industry	6,045	7,941
Services, finance, sport, tourism	4,842	3,396
Transport and telecommunications	3,059	3,000
Administrative and other public institutions	4,594	191
Other	5,039	1,280
	75,947	**56,692**

The above presentation includes only outstanding principals as of 31 December 2009 and 31 December 2008 respectively.
Interest rates for granted loans as at 31 December 2009 and 31 December 2008 are summarized as follows:

	31.12.2009		**31.12.2008**	
	KM '000	**Annual interest rate**	**KM '000**	**Annual interest rate**
Companies	68,056	6.00 % - 10.50 %	48,273	6.00 % - 10.50 %
Citizens	7,777	5.95 % - 10.50 %	8,235	5.95 % - 10.50 %
	75,826		**56,508**	

20. FINANCIAL ASSETS AVAILABLE FOR SALE

	%	31. December 2009	31. December 2008
Privredna banka Sarajevo d.d. (PBS)	6.36	1,620	1,779
Bamcard d.o.o, Sarajevo	0.10	3	3
General provision for impairment		(33)	(36)
Total		**1,590**	**1,746**

Until 2008, shares of PBS were accounted for at cost because they were not actively traded and their fair value could not be reliably measured otherwise. From 2008, the shares are traded on Sarajevo Stock Exchange and accordingly measured at fair value.

The movements in the provision for impairment of assets available for sale are summarized as follows:

	2009	2008
Balance at the beginning of period	**36**	**24**
Provisions (Note 13)	17	12
Reversal of provision (Note 13)	(20)	-
Balance at the end of period	**33**	**36**

(all amounts are expressed in thousands of KM)

21. OTHER ASSETS

	31. December 2009	**31. December 2008**
Repossessed collateral (Note 28)	323	323
Prepaid income taxes	6	8
Other assets	141	119
Total other assets	*470*	*450*
Provision for impairment	(23)	(30)
	447	**420**

The Bank expects to sell the pledged real estates in the near future.

The movements in the provision for impairment of other assets are summarized as follows:

	2009	**2008**
Balance at the beginning of period	**30**	**19**
Provisions (Note 13)	162	37
Reversal of provision (Note 13)	(13)	(26)
Write-offs	(156)	-
Balance at the end of period	**23**	**30**

(all amounts are expressed in thousands of KM)

22. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Computers and other equipment	Vehicles	Software	Construction in progress	Total
Cost value							
31 December 2007	**-**	**18,500**	**1,026**	**67**	**542**	**-**	**20,135**
Additions	-	-	33	70	-	341	444
Disposals	-	-	(6)	(67)	-	-	(73)
Transfer (from)/to	352	(352)	53	-	-	(53)	-
31 December 2008	**352**	**18,148**	**1,106**	**70**	**543**	**287**	**20,506**
Additions	-	-	61	-	-	502	563
Disposals	-	-	(40)	-	-	-	(409
Transfer (from)/to	-	319	37	-	136	(492)	-
Revaluation effects	73	(719)	-	-	-	-	(646)
31 December 2009	**425**	**17,748**	**1,164**	**70**	**679**	**297**	**20,383**
Accumulated Depreciation							
31 December 2007	**-**	**-**	**704**	**45**	**483**	**-**	**1,232**
Depreciation for the period	-	236	102	11	29	-	378
Disposals			(6)	(54)	-	-	(60)
31 December 2008	**-**	**236**	**800**	**2**	**512**	**-**	**1,550**
Depreciation for the period	-	232	79	11	24	-	346
Disposals	-	-	(39)	-	-	-	(39)
Revaluation effects	-	(295)	-	-	-	-	(295)
31 December 2009	**-**	**173**	**840**	**13**	**536**	**-**	**1,562**
Net book value:							
31 December 2009	**425**	**17,575**	**324**	**57**	**143**	**297**	**18,821**
Net book value:							
31 December 2008	**352**	**17,912**	**306**	**68**	**31**	**287**	**18,956**

Due to decrease of property price in the market, during 2009 the Bank has made reappraisal of buildings (and land), resulting in revaluation decrease of property in amount of KM 351 thousand. Appraisal was performed by an independent court appraiser.

(all amounts are expressed in thousands of KM)

23. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31. December 2009	31. December 2008
Short-term borrowings from domestic bank	-	-
Current portion of long-term borrowings	2,781	6,715
Total short-term borrowings	*2,781*	*6,715*
Long-term borrowings from foreign bank	19,378	27,057
(Current portion of long-term borrowings)	(2,781)	(6,715)
Total long-term borrowings	*16,597*	*20,342*
	19,378	**27,057**

On 30 April 1997 the Bank signed a loan agreement with the Kuwait Fund for Arabic Economic Development (the ‘KFAED’) in the amount of KWD 6,100,000, with interest rate of 1,5% and 0.5% of other expenses annually. As of 31 December 2008 five Appendixes to the Loan Agreement have been signed.

The purpose of KFAED’s loan is to finance small and medium legal entities with the maturity period of 7 years and interest rate in the range of 7.5%-9.5% till 30 June 2006, and afterwards from 7%-9%. The Government of Federation of Bosnia and Herzegovina is acting as guarantor of the Bank’s implementation of the Agreement under the Guarantee agreement approved by the Parliament of Federation of Bosnia and Herzegovina, by Decision no 20/99 dated 21 July 1999 (Official gazette FBiH, no 38/99). As disclosed in Note 1, any planned change in the ownership structure of the Bank with regard to the percentage of ownership of the Federation of Bosnia and Herzegovina has to be approved by KFAED.

Supervisory Board and Management Board of KFAED have approved Memorandum of Understanding dated 14 11 2008, under which the Bank has started accelerated repayment of the loan 516, and new approval of loans (sub-loans) from Kuwait credit line has been suspended.

The principal should be paid to KFAED in KWD in 14 unequal semi-annual instalments starting from 15 January 2009 with final maturity on 15 January 2015.

24. DUE TO GOVERNMENT

	31. December 2009	31. December 2008
Ministry of Finance of Federation Bosnia and Herzegovina	23,642	22,284
	23,642	**22,284**

Based on a Contract from 1 March 2005, signed between Council of Ministry of BiH and the Entity Governments, the Bank signed on 22. August 2005 “Contract on Managing Funds on a Permanent Basis” with Ministry of Finance of the Federation of Bosnia and Herzegovina (Ministry) and its annex on 31 August 2007. Under the Contract, the Bank bears all credit risks on the loans granted from the funds of this facility and is obliged to accrue interest at the rate of 2% per annum. As of the date of this report, no actual interest payments have been made. In accordance with the Contract, the value of the Fond is increased annually, for the amount of accrued interest, until 28 February of the following year. Accordingly, the loan balance is constantly increasing due to the accumulation of the accrued interest. Out of the total amount outstanding, KM 15,912 thousand was placed through loans as of 31 December 2009 (KM 15,575 thousand as of 31 December 2008). Under the Contract, the same is lasting until Bank has FBA licence and is doing its business in accordance with regular banks procedures.

(all amounts are expressed in thousands of KM)

25. DUE TO CUSTOMERS

	31. December 2009	31. December 2008
Demand deposits (transaction accounts):		
Citizens:		
In KM	149	12
In foreign currencies	128	32
Subtotal	*277*	*44*
Legal entities:		
In KM	4,206	3,012
In foreign currencies	3,496	6,737
Subtotal	*7,702*	*9,748*
Total demand deposits	**7,879**	**9,792**
Term deposits:		
Citizens:		
In KM	-	-
In foreign currencies	629	10
Subtotal	*629*	*10*
Legal entities:		
In KM	6,438	2
In foreign currencies	12,467	-
Subtotal	*18,626*	*2*
Total term deposits	**15,905**	**12**
	27,513	**9,804**

Interest rates for demand deposits in KM were 0,30% (2008. - 0,30%), and 0,20% (2008. – 0,20) for demand deposits in foreign currency. Short-term deposit interest rates in 2009 were from 1,80% to 6,00% (the Bank does not have short-term deposits in 2008). In 2009 interest rates for long-term deposits – term deposits and . deposits – collateral were from 2,46% to 5,81%, and from 5,50% to 5,70% during 2008.

In November 2009 the Bank has started operations with citizens through collection of deposits and opening all types of accounts for citizens in KM and other currencies. Interest rates for demand deposits in KM and foreign currency are 0,50%. Short-term deposit interest rates for citizens and EUR currency were from 1,70% to 2,20%, and for USD currency from 1,20% to 3,10%. In 2009 interest rates for long-term deposits in KM and EUR were from 4,20 to 5,90%, and for deposits in USD from 2,50 to 3,10%. In 2008 the Bank did not collect deposits citizens.
Transaction accounts are used for performing payment operations and money transfers.

As stated in Note 1. during 2009 the Bank has started more intensive collection of deposits. On 23 9 2009 the Bank has concluded the Contract with JP "Elektroprivreda BiH" d.d. Sarajevo on non-purpose term foreign currency (EUR) deposit in amount of EUR 5.000.000 on period of 15 months, i.e. from 25 9 2009 to 25 12 2010. Interest is calculated monthly under fixed interest rate of 5,81% on annual level. By this operating transaction the Bank has overrun provisions of the Article 42b. of the Law on Banks setting out that the Bank is not allowed to keep funds from a single source in amount higher than 20% (as at 31 December 2009 this deposit was 35,5%) of its total daily sources, and in this case the Bank is obliged to keep the next working day total overdrafts in monetary form as specific reserve on obligatory reserve account with Central Bank of B&H, and the Bank fulfilled this obligation (Note 17). According to warning of the Banking Agency dated 27 10 2009 the Management Board has discussed on 25 12 2009 the issue of high exposure to one depositor in regard of total deposits and has prepared the Plan for reducing exposure concentration to one depositor (in this case to JP"Elektroprivreda BiH") and submitted it on 12 01 2010 to the Banking Agency of the FB&H.

(all amounts are expressed in thousands of KM)

26. LONG TERM ACCRUALS

	31. December 2009	31. December 2008
Accrued income based on purchase of loans from PBS (Note 19)	1,421	-
	1,421	**-**

27. OTHER LIABILITIES

	31. December 2009	31. December 2008
Managed fund difference (Note 32)	485	784
Deferred income - Repossessed collateral (Note 22)	323	323
Liabilities to vendors	50	114
Deferred income	29	43
Other liabilities	51	15
	938	**1,279**

28. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover collateral or outstanding credit balances, as well as related interest and expenses from defaulted credit customers and interbank counterparts. The management of the Bank believes that any legal proceedings pending as at 31 December 2009 will not result in material loss to the Bank.

	31. December 2009	31. December 2008
Contingent liabilities		
Payment guarantees	4,822	3,867
Performance guarantees	2,327	2,802
Total contingent liabilities	**7,149**	**6,669**
Commitments		
Unused portion of overdraft loans	4,855	1,632
General agreements	6,399	5,541
Total commitments	**11,254**	**7,174**
Total contingent liabilities and commitments	**18,403**	**13,843**

(all amounts are expressed in thousands of KM)

29. PROVISIONS FOR CONTINGENT LIABILITIES AND COMMITMENTS

In the ordinary course of business, the Bank enters into credit related commitments which are recorded in off-balance sheet accounts and primarily include guarantees, letters of credit and undrawn loan commitments. Provisions for contingent liabilities are recognised 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.
Movements in provision for contingent liabilities and commitments are as follows:

	2009	**2008**
Balance at the beginning of period	**167**	**277**
Increase in provisions (Note 13)	587	367
Reversal of provision (Note 13)	(508)	(477)
FOREX	1	-
Balance at the end of period	**247**	**167**

(all amounts are expressed in thousands of KM)

30. RELATED-PARTY TRANSACTIONS

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

a. 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);

b. associates – enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;

c. 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;

d. 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

e. 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.

	2009	2008
Receivables		
Loans given to key management personnel and close family members	325	458
Loans given to Supervisory board and Audit committee members and close family members	225	327
	550	**785**
Liabilities		
Ministry of Finance of FBiH	25,288	26,498
Deposits Key management personnel and close family members	10	10
	25,298	**26,508**
Income		
Interest income Key management personnel and close family members	105	114
Interest income Supervisory board and Audit committee members and close family members	48	31
	153	**145**
Expenses		
Interest expense Ministry of Finance FBiH	446	428
Interest expense PBS d.d. Sarajevo	-	39
	446	**467**

(all amounts are expressed in thousands of KM)

30. RELATED-PARTY TRANSACTIONS (CONTINUED)

A number of banking transactions are entered into with related parties in the normal course of business. These transactions were carried out on commercial terms and conditions and at market rates.

The remuneration of directors and other members of key management were as follows:

	2009	2008
Compensation for directors and other key management	195	190
Taxes and contributions on compensation	102	129
Bonuses to Management board	-	20
Compensations for Supervisory Board members	108	118
Compensations for Audit Committee members	39	41
Other Management benefits	53	13
	497	**511**

31. MANAGED FUNDS

The Bank manages assets on behalf of third parties. These assets are recorded separately from the Bank's assets. For its services, the Bank charges a fee amounting from 0.25% to 2% quarterly (in 2008 from 0.25% to 2% quarterly) of the total amount contributed.

	2009	2008
Liabilities		
Government of FBiH	19,257	24,045
Government of BiH	893	2,049
UNIS Fagas d.o.o. Sarajevo	784	817
Canton Sarajevo	215	441
International MG	264	189
Institute for construction of Canton Sarajevo	129	135
Total	**21,543**	**27,676**
Assets		
Loans to companies	19,410	24,776
Loans to citizens	1,648	2,116
Total	**21,058**	**26,892**
Amounts due to original creditors – managed funds (Note 28)	**485**	**784**

The Bank has not issued any guarantees related to manage funds.

(all amounts are expressed in thousands of KM)

32. FINANCIAL INSTRUMENTS

Capital 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.

The Bank expects to maintain its debt to capital ratio. Solvency indicators were as follows:

	31. December 2009	31. December 2008
Debt (i)	70,533	59,145
Cash and cash equivalents	(9,232)	(9,289)
Net debt	61,301	49,856
Regulatory Capital (ii)	42,256	42,349
Net debt to capital ratio	**1.45**	**1.17**

Debt (i) is defined as liabilities to banks and clients presented in detail in Notes 23, 24 and 25 Capital (ii) includes total capital, Bank's reserves and retained earnings.

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.

The FBA requires each bank to: (a) hold the minimum level of the regulatory capital of KM 15,000,000, and (b) maintain a ratio of total regulatory capital to the risk-weighted asset at or above the minimum of 12%.

The Bank's regulatory 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, collective impairment allowances and unrealised gains arsing on the fair valuation of equity instruments held as available for sale.

The risk-weighted assets are measured by means of a hierarchy of five 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.

(all amounts are expressed in thousands of KM)

32. FINANCIAL INSTRUMENTS (CONTINUED)

Capital management (Continued)

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December. During those two years the Bank complied with all of the externally imposed capital requirements to which they are subject:

	2009	2008
Tier 1 capital		
Share Capital	23,895	23,895
Other reserves	13,556	14,493
Retained Earnings	1,361	441
Less intangibles	(144)	(31)
Total qualifying Tier 1 Capital	*38,668*	*38,798*
Tier 2 capital		
Other Share capital	2,620	2,620
General reserves	1,191	954
Net result for the year	824	900
Total qualifying Tier 2 Capital	*4,635*	*4,474*
Total regulatory capital	**43,303**	**43,272**
Risk weighted assets	**104,208**	**85,285**
On balance sheet	93,278	75,419
Off balance sheet	8,235	6,084
Capital Adequacy Ratio	**38.80%**	**50.73%**

Financial risk management objectives

The Bank's Risk Department 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, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

(all amounts are expressed in thousands of KM)

32. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency risk

The Bank is exposed to foreign currency risk due to cash flows denominated in foreign currencies that differ from the base currency used by the Bank when there is no matching between assets and liabilities denominated in the foreign currency. Portfolio exposure to foreign currency risk arises from portfolio sensitivity to fluctuations in exchange rate levels. The degree of foreign currency risk depends on the amount of open positions and the degree of potential change in foreign currency rates.

The carrying amounts of the Bank's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

	Assets		**Liabilities**	
	31.12.2009	**31.12.2008**	**31.12.2009**	**31.12.2008**
EUR	7,223	1,329	14,904	4,922
USD	6,950	5,596	2,444	4,517
KWD	15,911	26,547	19,190	27,057

<u>Foreign currency sensitivity analysis</u>

The Bank is not exposed to foreign currency risk related to EUR due to the fact that Convertible Mark is pegged to EURO (1 EUR = KM 1.955830). Change in the exchange rate would require the amendments of the law and approval by Parliamentary Assembly of Bosnia and Herzegovina. Exposure is more prominent for USD and KWD. The following table details the Bank's sensitivity to a 10% increase or decrease in foreign currency rates against the relevant local currencies. The sensitivity rate of 10% is 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.

	USD Effect (KM '000)		**KWD Effect (KM '000)**	
	31.12.2009	**31.12.2008**	**31.12.2009**	**31.12.2008**
Profit or Loss	615	150	(1,639)	(255)

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.

32. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency risk (Continued)

Foreign currency sensitivity analysis (continued)

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 Banking Agency of federation of Bosnia and Herzegovina 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.

Interest rate risk management

The Bank is exposed to interest rate risk as it does not borrow funds at variable interest rates. The risk is managed by the Bank by maintaining an appropriate mix between fixed and floating rate placements with banks.

The Bank's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate risk reflects the possibility of loss of profit and/or erosion of capital due to a change in interest rates. It relates to all products and balances that are sensitive to changes in interest rates. This risk comprises two components: income component and investment component. The income component arises from a lack of harmonization between the active and passive interest rates of the Bank. The investment component is a consequence of the inverted relationship between price and interest rate fluctuations of securities.

The Bank strives to protect itself from interest rate risk by harmonizing the type of interest rate (fixed and variable), currency, related interest rate and the date of interest rate change for all products for which it concludes contracts (which are sensitive to interest rate changes). Any incongruity among the abovementioned elements results in exposure of the Bank to interest rate risk.

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.

32. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk management (Continued)

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, undrawn 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, undrawn portions of and approved overdrafts loans. Commitments to extend credit or guarantees issued by the Bank which 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 undrawn portions of authorised loans and approved overdraft facilities because they result from contractual terms and conditions in the credit agreements.

(all amounts are expressed in thousands of KM)

32. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk management (Continued)

Financial assets

Loans and advances presented in the table bellow include outstanding principal and accrued interest as of 31 December 2009 and 31 December 2008 respectively.

	Total gross carrying amount	Unimpaired assets	Individually impaired assets	Individual impairment allowance	Collective impairment allowance	Total net carrying amount
31 December 2009						
Cash and balances with other banks	2,125	2,125	-	-	-	2,125
Obligatory reserve with CBBH	7,107	7,107	-	-	-	7,107
Placements with other banks	15,266	13,448	1,818	(92)	(2)	15,172
Loans and advances to customers	75,844	49,263	26,581	(4,816)	(896)	70,132
Financial assets held for sale	1,623	1,623	-	-	(33)	1,590
TOTAL	**101,965**	**73,566**	**28,399**	**(4,908)**	**(931)**	**96,126**
31 December 2008						
Cash and balances with other banks	3,200	3,200	-	-	-	3,200
Obligatory reserve with CBBH	6,089	6,089	-	-	-	6,089
Placements with other banks	20,736	18,797	1,939	(90)	(7)	20,639
Loans and advances to customers	56,857	36,679	20,178	(3,891)	(726)	52,240
Financial assets held for sale	1,781	-	-	-	(36)	1,746
TOTAL	**88,663**	**64,765**	**22,117**	**(3,981)**	**(769)**	**83,914**

(all amounts are expressed in thousands of KM)

32. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk management (Continued)

Credit exposure and collateral

31.12.2009		**Credit risk exposure**		
Description	**Loans given**	**Undrawn loan commitments and unutilized overdrafts**	**Commitments / Guarantees issued**	**Fair value of the collateral**
Legal entity	69,984	4,810	7,149	218,674
Retail	7,795	-	-	19,832
Total	**77,779**	**4,810**	**7,149**	**238,506**
31.12.2008	48,273	1,632	6,669	216,037
Legal entity	8,235	-	-	22,470
Retail	**56,508**	**1,652**	**6,669**	**238,507**
Total				

Fair value of the collateral

	31.12.2009	**31.12.2008**
Property	224,017	215,074
Guaranty	9,047	23,074
Deposits	5,442	359
	238,506	**238,507**

32. 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 the Banking Agency of Federation of Bosnia and Herzegovina. The table below provides an analysis of assets, liabilities and shareholders' equity 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. Those assets and liabilities that do not have a contractual maturity date are grouped together under 'maturity undefined' category.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, 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 financial liabilities table has 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 financial assets table has 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.

(all amounts are expressed in thousands of KM)

32. FINANCIAL INSTRUMENTS (CONTINUED)

Financial liabilities	**Weighted average effective interest rate**	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**5+ years**	**Total**
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**
31.12.2008							
Non-interest bearing	-	10,343	349		10		10,702
Fixed interest rate instruments	2.00	-	5,216	1,652	13,326	32,873	53,067
		10,343	**5,565**	**2,380**	**13,336**	**32,873**	**63,769**
Financial assets							
31.12.2009							
Non-interest bearing		346	-	-	-	1,590	1,936
Fixed interest rate instruments	10.50	10,602	12.097	20.981	41.259	11.693	101,632
Variable interest rate instruments	0,50	13,374	-	-	-	-	13,374
		29,322	**12.097**	**20.981**	**41.259**	**11.693**	**116,942**
31.12.2008							
Non-interest bearing	-	9,289	-	-	1,746	-	11,035
Fixed interest rate instruments	10.54	22,735	3,873	17,772	30,112	9,220	83,712
		32,024	**3,873**	**17,772**	**31,858**	**9,220**	**94,747**
Liquidity Gap							
31.12.2009		**19,754**	**4,082**	**8,044**	**27,939**	**(19,142)**	**42,267**
Liquidity Gap							
31.12.2008		**21,681**	**(1,692)**	**16,120**	**18,522**	**(23,653)**	**30,978**

33. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board on 9 February 2010.

Signed on behalf of the Management Board:

Hamid Pršeš	Enisa Hulusić
Director	Executive Director for Accounting, Analyzes and IT