



Main indicators

Balance Sheet (according to FBA)

	2008 (000 KM)	2007 (000 KM)	Index 2008/2007
Total assets of the balance sheet	527.811	338.414	155,97%
Loans, leasing, receivables minus loan loss reserves	335.897	205.382	163,55%
Deposits	239.020	240.697	99,30%
Total capital	66.079	41.990	157,37%

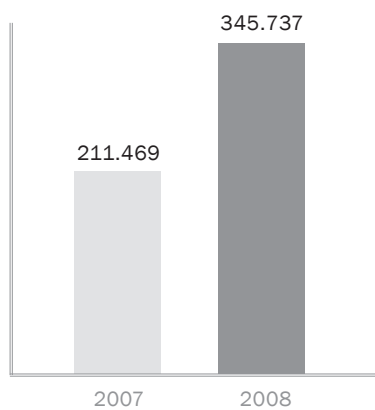
Income statement (according to FBA)

	2008 (000 KM)	2007 (000 KM)	Index 2008/2007
Net interest and similar income	14.000	11.257	124,37%
Total operative income	11.602	12.584	92,20%
Loan loss reserves	7.790	4.895	159,14%
Other business and direct costs	3.603	1.975	182,43
Operative outcome	20.119	15.165	132,67%
PROFIT BEFORE TAX		1.806	
LOSS	5.910		
TAXES		269	
NET PROFIT		1.537	

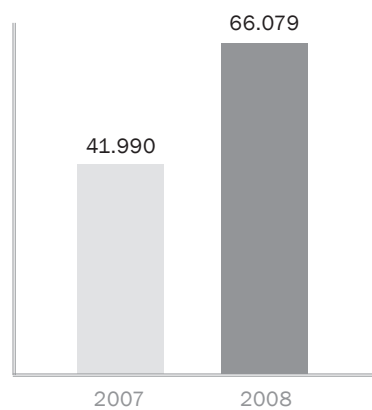
Additional information

	2008	2007
Number of employees	379	326
Number of business network units	47	44

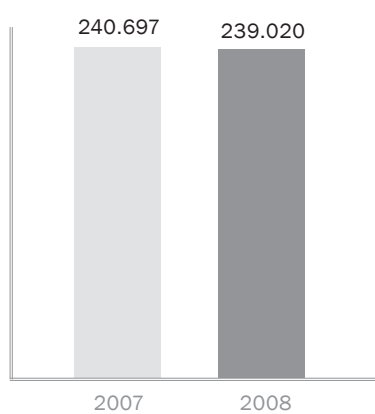
Gross loans (000 KM)



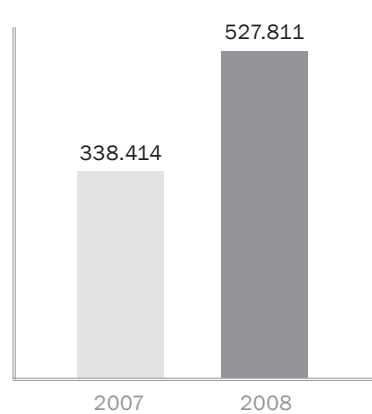
Capital (000 KM)



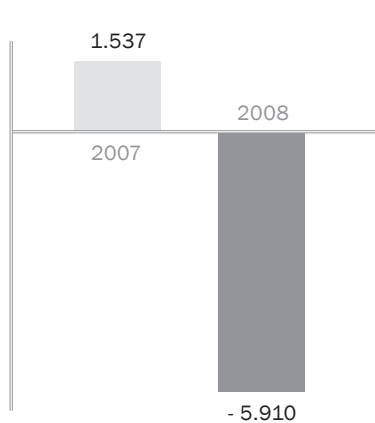
Deposits (000 KM)



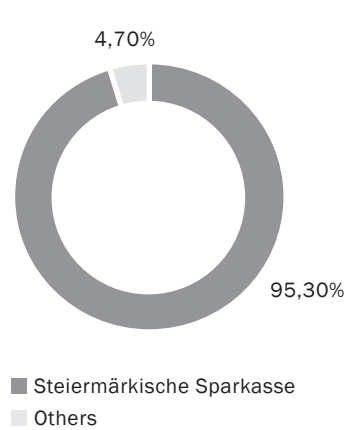
Assets (000 KM)



Financial result (000 KM)



Ownership structure as of 31.12.2008.



„ Together we have spent a year in the same way we are going to spend all the following ones - determined and united toward a clear goal to become one of the strongest banks in the country. ”

Director
Gerhard Maier

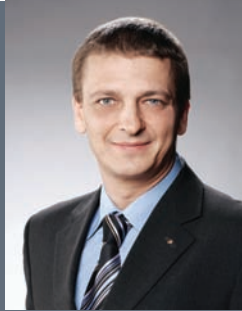
The year of a strategic revolution

2008 may be seen as a year of a strategic revolution, achieved through following long-term objective – to position the bank on the top of the banking market. Therefore, the past year can be evaluated both through accomplished financial indexes as well as the engagement of our team, positive changes and, finally, numerous investments made to achieve this goal.

Comparing this year indices to those of the previous year, the assets in 2008 grew by 56% and loans by 63.5%, which goes to show an increase in the number of clients as well as in the demand for loans. This can be explained by the availability of more sustainable sources of funds which lead to more favorable conditions and terms of payments for the loans offered to our clients. The capital increased by 24.1 million KM as a result of recapitalization, as our strategic partner, Steiermärkische Sparkasse, reached almost 96% ownership in joint capital. We ended the last year with the assets of 527.8 million KM.

However, above all, we would like to give a summary of the year behind us presenting the activities aimed at a long term growth and development, that is, investments and projects that our team carried out successfully. We find the new information system, ABIS, a very important chapter of 2008. The system successfully started, and the time of work process streamlining is ahead of us, with a final goal to offer more effective service to our clients. Great investments into a network of ATMs, preparations for the implementation of Basel 2 IT project, and investing in new products like VISA card, will, for sure, contribute to this goal.

Efforts made to reorganize the bank, introduce new functions, fill the gaps and implement all changes in the practice, were also among the challenges in 2008.



Director
Gerhard Maier



Executive director
Zahida Karić



Executive director
Nedim Alihodžić

Following our motto of being close to the client, the focus of investments was a business network of the bank, which, in 2008, was expanded by five new branches in regions where we had not been present before. At the same time, all conditions for a more intense regional expansion in 2009, with country-wide coverage (including all BiH), were fulfilled.

Finally, all changes and investments we carried out resulted in employing more than 70 new employees who are a part of the team today.

It is our team we would like to give thanks for an extraordinary engagement in the year behind us.

Management of ABS BANK





Management Board



” From a group of small regional banks we grew into a bank which covers the whole country and expands alongside a strong, international partner. With a realistic and healthy ambition, we aim towards the top of Bosnian bank market.”

Executive director
Zahida Karić

ABS BANK DD SARAJEVO, with its head office in Sarajevo, has operated in Bosnia and Herzegovina for ten years and is a member of the Austrian Steiermärkische Sparkasse group.

Our team has almost 400 employees.

It services more than 100,000 clients.

We offer all kinds of conventional and modern banking including financial services of S-Leasing.

We operate through a business network of nearly 50 branches all over Bosnia and Herzegovina.

Who Stands Behind Us

Our majority owner Steiermärkische Bank und Sparkassen AG from Austria has majority ownership in banks and leasing companies in all countries of former Yugoslavia. Steiermärkische Sparkasse concern is a leading bank group in the south of Austria with 2 million clients in 470 branches in Austria and South-East Europe.

Goals, Plans and Accomplishments

Our objective is to continue developing according to the savings banks group standards into a modern retail-bank with a country-wide coverage, and be among the five leading banks in Bosnia and Herzegovina. The concrete steps anticipated for the 2008-2010 period will lead towards this objective:

- strong territorial expansion throughout country with 16 new branches – expanding the network in the Federation of Bosnia and Herzegovina with stronger coverage in the West Herzegovina, and coming out and expanding to the market of the Republic of Srpska
- persistent investments in the new products like the VISA and Diners Card, and upgrade of current products, by introducing a wide range of savings products, in line with savings-banks principles
- persistent human resource development through employing about 150 new employees and educational programs for employees in the whole organizational structure, with focus on the first line staff
- investments in technical support to clients by a network of 60 ATMs and many new POS terminals in retail outlets
- improvement of internal organizational structure, internal communication and information systems to aimed at work process streamlining and improved efficiency
- significant investments in new promotion activities.



Our Advantages – Key Factors of Success

- Strong strategic partner and steady capital base
- Long standing business tradition and experience in banking business
- Concentration of knowledge and motivation of our employees
- Wide infrastructure and base of loyal clients over many years
- Services tailor-made for the clients.

„Our vision is clear, our goals defined, the way we should accomplish them established. Upgrade is a man-centered corporate climate, where people share the same values and live our principles.“

Executive director
Nedim Alihodžić

Our Vision

To become one of the strongest banks in the country using business tools based on the best banking practices.

Our Mission

ABS BANK cares about the success of our clients:

competently

with tailor-made solutions

with constant improvements of its offers

with a long-term perspective

Our Goal

Long-term growth and development provided by satisfied employees and loyal clients.

Our Guidelines

We take responsibility

We see the success of our clients, employees and contribution to the society as our responsibility.

Reliability creates friendships

We respect business ethics. Partnership with our clients and employees is the key of their loyalty.

Collaboration with a complete trust

We communicate openly and honestly. We always keep our promise.

Security with assurance

To protect clients and employees is our tenet. And for that we use all available tools.

Tailor-made solutions

There are no universal solutions – each of our clients has the right to an offer made just for them. Therefore, we give them our attention, time and commitment.

Courage as a chance

Our team is governed by the principles of self-initiative, accepting new ideas and taking on challenges, as well as ambition to achieve their goals.



Savings Bank – A Business Model for Employee, Client and Shareholder Safety

We are guided by the model that our parent company Steiermärkische Sparkasse from Austria uses the most stable savings banks model for the past 190 years which consists of:

- Savings Bank model in place of Investment Banking – focus is on transactions with population, i.e. small and medium businesses, where credits are refinanced from savings deposits that the bank collects, with risk dispersed on a great number of clients therefore kept at a minimum
- Conservative approach to investments – investments in securities are conducted with caution with focus on safety, even at cost of the profit
- Joint responsibility of Austrian saving banks group for 100% of all deposits (“Haftungsverbund”)
 - Erste Bank and almost 50 Austrian savings banks are jointly responsible for savings deposits and form a unique risk community.

Strategic Commitment – Retail Bank with Individual Solutions

Our strategic commitment to transactions with the population, small and medium businesses, is implemented by building key advantages necessary for these segments: Access for clients through a wide business network, fast and tailor-made service, and employees who can keep partnership with the client.

Corporate Social Responsibility – ABS BANK as an active community member

As an organization, we consider ourselves a part of the community, and as such take responsibility. We contribute to the community with clearly defined objective, where we believe that help is most needed and support projects that we can back up. We see contributing development and education of the youth as an always current topic. Through a sponsor-partner agreement, we have helped the International Association of Students of Economic and Commercial Studies - AIESEC for several years (picture: Fair), and through business cooperation with Sarajevo Graduate School of Business, we support Master of Business Administration program students through long-term special condition loans. As part of the “Best of South East” project, our bank sent students from Bosnia and Herzegovina to get experience and education working as interns in our parent bank in Austria, and they were provided full financial support. Our sponsored and donor agreements in sports cover a wide range of junior and local sport clubs like HC and FC Bosna from Visoko, FC Čelik from Zenica, FC Velež from Mostar, as well as Volleyball and Soccer League of BiH.

„Imagine classical bankers, lawyers, computer specialists, PR experts, security experts, experienced analysts and young enthusiastic organizers – imagine them all in one place, in one team, united. Our projects were destined to succeed! ”

Director of Organization and
Project Management Directorate
Smail Korajlić

New Information System „ABIS“

The whole 2008 was marked with preparations for implementation of a new information system ABIS at the beginning of 2009, which required engagement of the whole team and complex education process for the employees. The new system is directed at work processes streamlining within the bank aimed at a centralized access to the data, which would enable a more effective monitoring, risk management and faster, more efficient service, especially in the segment of credit financing.

“Business Network Expansion” Project

2008 was marked by regional expansion which strengthened our presence in the market where the bank has not been present yet. New agencies in Sarajevo region are Dobrinja and Novo Sarajevo, new agency in Kakanj was opened, our presence in Herzegovina region is marked by opening agencies Ljubuski and Mostar.

Thereby, the investment in the infrastructure of the bank does not imply only expanding our presence on the market but also a visual image of retail centers in accordance with the group’s international standards.



"ATM Installation" Project

During 2008, 39 ATMs were installed and are available for our clients all over BiH.

Project of Introducing New Products and Services

- Product range was enhanced by debit, credit and business VISA card mid 2008
- A new service of custodial services for loan stocks, which will be provided in 2009, in co-operation with brokerage houses has been developed
- A new credit was launched aimed at financing projects of housing construction projects of companies active in building constructions.

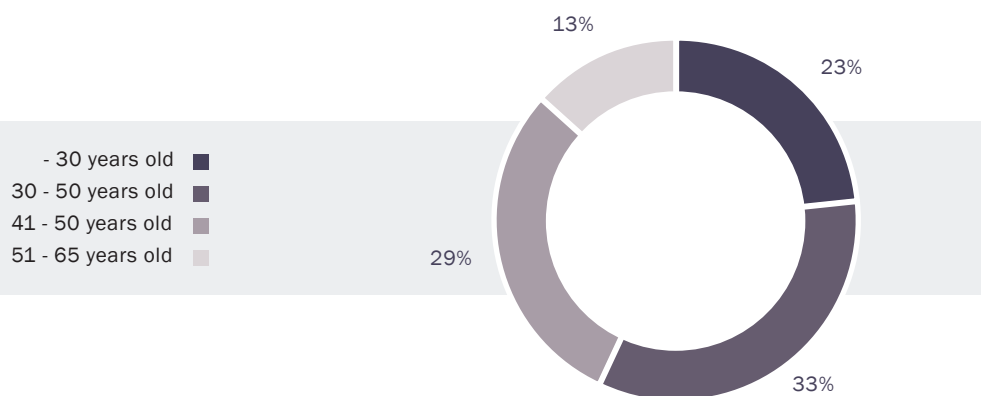
Our Team - Who Takes on All Challenges on the Way towards the Goals That Have Been Set

„Our strength is in people - people whose knowledge, enthusiasm and sacrifice we treasure and who are key to our current and future success. ”

Director of Human Resource Management Directorate
Lejla Mustagrudić

Combination experience and youth

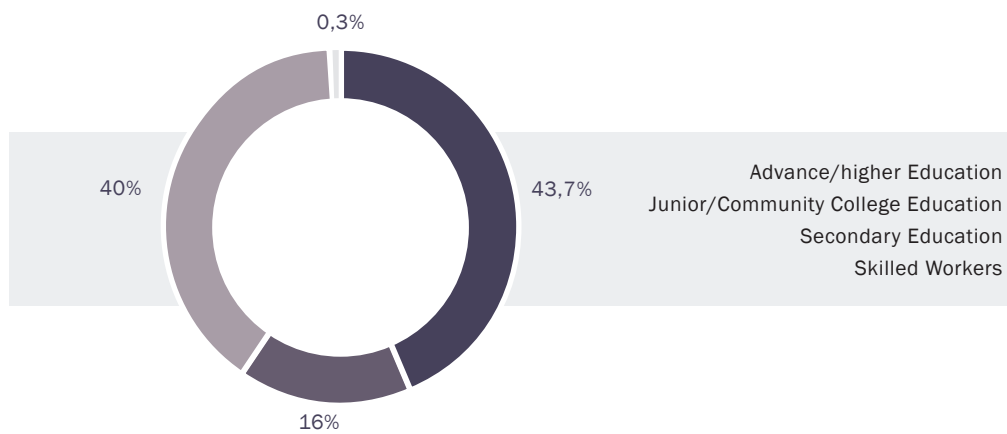
On its way towards a joint goal, our team combines experience and knowledge of employees who have worked for us for many years, and enthusiasm of our young colleagues. An average age of our employees is 39. Age structure is the following:





Concentration of knowledge as a competitive advantage

Educational structure of employees in our bank in 2008:



Our Clients – To Achieve a Partnership Is a Success Already

„The best products, the most favorable conditions, superior technical support, can make you a successful company. But, the people are those who make you the best. Trust, fair relationship and honest conversation are things that a client cannot connect to the name of ABS BANK but to the face of the person they spoke to. We are aware of that every day.“

Director of retail division
Kenan Đonko

Ever since the Bank was established until today, we have been followed by a base of loyal clients who we consider our partners. Our team is bound up by a joint mission - to accomplish long-term relationships of trust with clients through the principle of personal banking. The result of the mission is 100,000 clients of our services, the number that keeps on growing.

Alma Ras

“ALMA-RAS Ltd. Olovo was established in 1998. It is built on a foundation of a family tradition, abundant longtime experience and a clear vision of development of a quality local brand.

The main business of the company is manufacturing fine underwear for all generations. The result of clear vision and growth strategy is the new production plants in Srebrenica and Olovo, with about 300 skilled workers newly employed.

We have worked with ABS BANK for many years now and the bank is one of those business partners that follow us and contribute to the development of our business.”

Rasim Memagić

Marketing & Sales Manager



Clients of the bank
Čengić Emsa, Krupalija Senad



Marketing & Sales Manager
"Alma Ras"
Rasim Memagić



Art Hotel Director
Mirza Masleša

Hotel Art

"The Art Hotel is owned by the Polisara Company and until recently it was known as Europa Garni Hotel. Our main business is tourism and hotel industry, in which we are active since 2000, and we employ about 40 employees.

Our cooperation with the ABS BANK started in 2004 and in the meantime it grew into a partnership. By using the services of the bank, we have greatly improved our business by investing into reconstruction and rehabilitation, and we are also thinking about expanding our business."

Mirza Masleša

Art Hotel Director

Čengić Emsa, Krupalija Sead

"We have been clients of the ABS BANK since the branch in Novo Sarajevo was opened. We use its payment operations services, all our monthly earnings are transferred to our accounts here. If there is a need for any other banking services, we will certainly implement them here, because it is this bank that we can always count on for excellent service and pleasant contacts."





Alma Ras
Corporate client







Hotel Art
SME client



ABS BANKA D.D. SARAJEVO

Financial statements for the year ended 31 December 2008 prepared in accordance with International Financial Reporting Standards as modified by regulatory requirements of the Banking Agency of Federation of Bosnia and Herzegovina together with Independent Auditors' Report

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Responsibility for the financial statements

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 period in accordance with International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board (IASB), as modified by the regulatory requirements prescribed by the Banking Agency of the Federation of Bosnia and Herzegovina, which give a true and fair view of the state of affairs and results of ABS Banka d.d. Sarajevo (the Bank) for the year ended 31 December 2008.

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

Maier Gerhard

Director

ABS Banka d.d.
Trampina 12/6
71000 Sarajevo
Bosnia and Herzegovina

19 February 2009

To the Shareholders of ABS Banka d.d. Sarajevo

We have audited the accompanying financial statements ABS Banka d.d. ('the Bank'), set out on pages 3 to 43 which comprise of the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as modified by the regulatory requirements prescribed by the Banking Agency of the 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 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

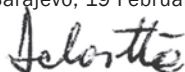
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as modified by the regulatory requirements prescribed by the Banking Agency of the Federation of Bosnia and Herzegovina.

Emphasis of Matter

Without qualifying our opinion we furthermore draw your attention to Note 24 to the financial statements, which disclose the concentration of deposits and borrowings from the Bank's parent company.

Deloitte d.o.o.

Sarajevo, 19 February 2009



Income Statement for the year ended 31 December 2008
(all amounts are expressed in thousands of KM, unless otherwise stated)

	Notes	2008.	2007.
Interest and similar income	6	25.651	19.732
Interest expense and similar charges	7	(11.651)	(6.738)
Net interest income		14.000	12.994
Fee and commission income	8	9.490	7.670
Fee and commission expense	9	(913)	(1.077)
Net fee and commission income		8.577	6.593
Net foreign exchange gains	10	927	1.122
Other operating income		222	495
Income from operating activities		23.726	21.204
Personnel expenses	11	(11.746)	(8.646)
Depreciation expenses	23	(1.074)	(851)
Other administrative expenses	12	(8.157)	(6.567)
Operating expenses		(20.977)	(16.064)
PROFIT BEFORE IMPAIRMENT LOSSES, PROVISIONS AND INCOME TAX		2.749	5.140
Impairment losses and provisions	13	(9.622)	(4.895)
Recoveries	14	963	1.561
		(8.659)	(3.334)
(LOSS) / PROFIT BEFORE INCOME TAX		(5.910)	1.806
Income tax expense	15	-	(269)
NET (LOSS) / PROFIT FOR THE YEAR		(5.910)	1.537
(Loss) / Earnings per Share	16	(0,0191)	0,0058

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

Balance Sheet as at 31 December 2008
(all amounts are expressed in thousands of KM, unless otherwise stated)

	Notes	2008.	2007.
ASSETS			
Cash and balances with banks	17	40.804	53.054
Obligatory reserve with Central Bank	18	51.177	33.316
Placements with other banks	19	84.629	32.402
Loans and advances to customers, net	20	336.518	205.823
Financial assets available for sale, net	21	160	160
Other assets, net	22	2.088	4.512
Property, plant and equipment	23	10.904	8.189
TOTAL ASSETS		526.280	337.456
LIABILITIES			
Due to other banks and financial institutions	24	242.358	63.726
Due to customers	25	211.514	227.671
Provisions	26	3.808	1.589
Other liabilities	27	2.520	2.480
Total liabilities		460.200	295.466
SHAREHOLDERS' EQUITY			
Share capital	28	56.473	26.473
Share premium		8.372	8.372
Reserves and retained earnings		1.235	7.145
Total shareholders' equity		66.080	41.990
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		526.280	337.456

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

Signed on behalf of ABS Banka d.d. on 19 February 2009:

Gerhard Maier
Director

Zahida Karić
Executive Director

Cash flow Statement for the year ended 31 December 2008

(all amounts are expressed in thousands of KM, unless otherwise stated)

	2008.	2007.
Net (loss) / profit	(5.910)	1.537
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1.074	851
Impairment losses and provisions	9.622	4.895
Write-off of provision for contingent liabilities	(261)	(233)
Net loss on disposal of fixed assets	15	27
Changes in assets and liabilities:		
Increase in obligatory reserve with the Central Bank (net)	(17.861)	(7.786)
Increase in placements with other banks, before provision (net)	(52.227)	(22.516)
Increase in loans, before provision (net)	(137.088)	(85.321)
Decrease /(increase) in other assets, before provision (net)	1.675	(2.863)
Increase in deposits from banks (net)	17.902	15.186
(Decrease) / increase in amounts due to customers (net)	(16.157)	79.214
Increase in other liabilities (net)	31	7
NET CASH USED IN OPERATING ACTIVITIES	(199.185)	(17.002)
Investing activities		
Acquisition of assets available for sale	-	(20)
Purchase of fixed assets	(3.860)	(2.203)
Proceeds from disposal of fixed assets	65	-
NET CASH USED IN INVESTING ACTIVITIES	(3.795)	(2.223)
Financing activities		
Proceeds from borrowings (net)	160.730	33.539
Shares issuance	30.000	-
NET CASH FROM FINANCING ACTIVITIES	190.730	33.539
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(12.250)	14.314
CASH AND CASH EQUIVALENTS AT 1 JANUARY	53.054	38.740
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	40.804	53.054

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

Statement of changes in equity for the year ended 31 December 2008

(all amounts are expressed in thousands of KM, unless otherwise stated)

	Share capital	Share premium	Reserves	Retained earnings	Total
Balance as of 1 January 2007	26.473	8.372	3.605	2.003	40.453
Allocation of net profit for 2006	-	-	2.003	(2.003)	-
Profit for 2007	-	-	-	1.537	1.537
Balance as of 31 December 2007	26.473	8.372	5.608	1.537	41.990
Allocation of net profit for 2007	-	-	1.537	(1.537)	-
Closed share issue	30.000	-	-	-	-
Loss for 2008	-	-	-	(5.910)	(5.910)
Balance as of 31 December 2008	56.473	8.372	7.145	(5.910)	66.080

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

Notes to the financial statements for the year ended 31 December 2008

(all amounts are expressed in thousands of KM, unless otherwise stated)

1. GENERAL

ABS Banka d.d. (the 'Bank') is registered at the relevant court in Sarajevo, registration No. U/I-1291/99 on 9 July 1999. The Bank was issued a banking licence by the Banking Agency of the Federation of Bosnia and Herzegovina on 28 July 1999, registration No. 01-376/99. The Bank's registered address is in Sarajevo, Trampina 12/6.

Principal activities

The Bank offers banking services through developed network of business in Bosnia and Herzegovina, including:

- Receiving and placing of deposits
- Receiving of term and demand deposits
- Making and purchasing of loans
- Buying and selling foreign currencies
- Cash transactions in interbank market
- Cash payment and transfer, both national and abroad
- Debit/credit card operations

Supervisory Board and Management Board

Supervisory Board

Franz Kerber	President
Hamdija Alagić	Member
Georg Bucher	Member
Kristijan Schellander	Member
Renate Ferlitz	Member (from 10 June 2008)
Gerhard Maier	Member (till 10 June 2008)

Management Board

Gerhard Maier	Acting Director (from 1 September 2008) Executive Director (from 14 to 31 August 2008)
Adnan Zukić	Director (till 31 August 2008)
Hajrudin Hadžović	Executive Director (till 28 May 2008)
Zahida Karić	Executive Director (from 28 May 2008)
Sanela Pašić	Executive Director (till 1 April 2008)

Notes to the financial statements for the year ended 31 December 2008

(all amounts are expressed in thousands of KM, unless otherwise stated)

3. BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

Basis of presentation

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 as modified by the regulatory requirements prescribed by the Banking Agency of the Federation of Bosnia and Herzegovina ("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 non-current 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. These estimates are based on the information available as at the balance sheet 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 ("FBA") 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.

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.

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.

Employee benefits

On behalf of its employees, the Bank is paying 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 Federal Pension and Health Fund, 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, the Bank makes retirement severance payments of minimum three average monthly salaries of the employee in question or three average salaries of the Federation of Bosnia and Herzegovina paid in the period of the last three months, depending on what is more favorable to the employee.

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

Notes to the financial statements for the year ended 31 December 2008

(all amounts are expressed in thousands of KM, unless otherwise stated)

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, 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.

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. For current operations, the Bank uses two categories of financial assets, for which basis of accounting is disclosed below.

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'.

AFS financial assets

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 31, point j). 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.

Loans and receivables

Loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified

Notes to the financial statements for the year ended 31 December 2008

(all amounts are expressed in thousands of KM, unless otherwise stated)

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
0	30	A	2%
31	90	B	5% - 15%
91	180	C	16% - 40%
181	270	D	41% - 60%
271	i više	E	100%

Impairment of financial assets other than loans

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet 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.

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.

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:

Notes to the financial statements for the year ended 31 December 2008

(all amounts are expressed in thousands of KM, unless otherwise stated)

- 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.

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 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.

Property, plant and equipment

Property, plant and equipment are stated 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 capitalized. 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.

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:

	31 December 2008.	31 December 2007.
Buildings	1,3% - 3%	1,3% - 3%
Computers	33,3%	33,3%
Vehicles	20%	20%
Furniture and other office equipment	15%-20%	15% - 20%

Impairment

At each balance sheet date, the Bank reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land or buildings other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Intangible assets

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

Notes to the financial statements for the year ended 31 December 2008

(all amounts are expressed in thousands of KM, unless otherwise stated)

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, 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 2008	1 EUR = 1,95583 KM	1 USD = 1,387310 KM
31 December 2007	1 EUR = 1,95583 KM	1 USD = 1,331221 KM

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.

Reclassification

Certain amounts in the previous year financial statements have been reclassified to conform to the current year presentation.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies, which are described in Note 3, 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 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 at Note 3 above, in paragraph with heading Property, plant and equipment, the Bank reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

Fair value of derivatives and other financial instruments

As described in Note 31, point j), the directors 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.

Court proceedings provisions

The amount recognized as a provision for court proceedings is the best estimate of the consideration required to settle the present obligation at the balance sheet date, when the probability that the settlement will occur is greater than that it will not.

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.

Notes to the financial statements for the year ended 31 December 2008
(all amounts are expressed in thousands of KM, unless otherwise stated)

6. INTEREST AND SIMILAR INCOME

	2008.	2007.
Interest on loans to individuals	14.740	10.635
Interest on loans to companies	8.699	7.013
Interest on placements with other banks	1.273	1.525
Interest on placements with the Central Bank of Bosnia and Herzegovina	939	559
Total	25.651	19.732

7. INTEREST AND SIMILAR CHARGES

	2008.	2007.
Interest on deposits and borrowings from banks	5.623	2.529
Interest on companies' deposits	3.221	2.013
Interest on individuals' deposits	2.807	2.196
Total	11.651	6.738

8. FEE AND COMMISSION INCOME

	2008.	2007.
Fees from payment transactions	7.866	6.114
Fees from off-balance sheet transactions	1.019	908
Fees from conversion transactions	605	648
Total	9.490	7.670

9. FEE AND COMMISSION EXPENSE

	2008.	2007.
Fees and commissions for payment transactions	793	934
Other fees to banks	120	143
Total	913	1.077

10. NET FOREIGN EXCHANGE GAINS

	2008.	2007.
Foreign exchange gains	1.447	1.231
Foreign exchange losses	(520)	(109)
Total net	927	1.122

11. PERSONNEL EXPENSES

	2008.	2007.
Net salaries	5.547	4.205
Taxes and contributions	3.858	2.916
Other	2.341	1.525
Total	11.746	8.646

The average number of employees of the Bank during the years ended 31 December 2008 and 2007 was 350 and 320 respectively.

12. OTHER ADMINISTRATIVE EXPENSES

	2008.	2007.
Services	1.180	759
Communication costs	890	671
Rent	857	617
Transportation	846	916
Material expenses	765	700
Insurance	761	623
Advertising and marketing	712	491
Maintenance	605	525
Other taxes and dues	551	325
Energy cost	472	395
Fees to Supervisory Board members	73	104
Other administrative expenses	445	441
Total	8.157	6.567

Notes to the financial statements for the year ended 31 December 2008
(all amounts are expressed in thousands of KM, unless otherwise stated)

13. IMPAIRMENT LOSSES AND PROVISIONS

	Notes	2008.	2007.
Impairment losses on loans and advances	20	6.393	3.656
Additions on provisions for other assets	22	749	254
Additions on provision for commitments and contingencies	26	648	418
Other provisions	26	1.832	567
Total		9.622	4.895

14. RECOVERIES

	2008.	2007.
Income from collection of written-off loan principle amounts	425	773
Income from collection of written-off interest receivable	424	645
Income from collection of written-off other receivables	114	143
Total	963	1.561

15. INCOME TAX

a) Year ended 31 December 2007

Profit before income tax	1.806
Non-deductible expenses	1.786
Basis for taxation	3.592
Income tax at the rate of 30%	1.077
Tax exemption based on reinvestment in property, plant and equipment	(808)
Income tax liability	269
Effective income tax rate (%)	7,50%

The income tax rate for the year ended 31 December 2007 was 30%.

b) Year ended 31 December 2008

From 1 January 2008, the new Income tax law is become effective in the Federation of Bosnia and Herzegovina. New income tax rate is 10%.

Loss before income tax	(5.910)
Temporary differences	
Non-deductible expenses	227
	227
Permanent differences	
Non-deductible expenses	5.062
	5.062
Adjusted loss	(621)
Income tax liability	-
Unrecognized deferred tax asset	85

Allowance was made for the deferred tax assets in the total amount of KM 84,804 since the Management has considered this item as immaterial for financial statements for the year ended 31 December 2008.

16. EARNINGS PER SHARE

	2008.	2007.
Weighted average number of shares for the purpose of basic earnings per share	271.715	264.733
Net (loss) / profit	(5.910)	1.537
Basic (loss) earnings per share	(0,0191)	0,0058

Notes to the financial statements for the year ended 31 December 2008
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17. CASH AND BALANCES WITH BANKS

	31 December 2008.	31 December 2007.
Cash on hand	11.655	15.108
Current account with the Central Bank of Bosnia and Herzegovina	25.805	36.533
Current accounts with other banks in foreign currencies	3.334	1.348
Cheques in course of collection	10	65
Total	40.804	53.054

18. OBLIGATORY RESERVE WITH THE CENTRAL BANK

	31 December 2008.	31 December 2007.
Obligatory reserve with the Central Bank of Bosnia and Herzegovina	51.177	33.316
Total	51.177	33.316

During the period from 1 January to 14 October 2008, minimum obligatory reserve was calculated in amount of 18% 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.

On 14 October 2008, due to impact of the global financial crisis, the rate of minimum obligatory reserve was decreased to 14%.

During 2007, the rate of minimum obligatory reserve was 15%. Interest rate on funds kept up to minimum obligatory reserve was 1% during 2008 and 2007.

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 December 2008.	31 December 2007.
OECD countries	47.644	22.402
Other countries	36.985	10.000
Total	84.629	32.402

The interest rate for placements in EUR was 3.85% - 4.10% and 3.00% - 4.33%, p.a., for placements in USD 0.27% - 3.00%, and 4.10% - 5.30%, p.a. as of 31 December 2008 and 31 December 2007, respectively.

Maturity of placements with other banks was as follows:

	31 December 2008.	31 December 2007.
Demand deposits	84.492	32.222
Restricted deposits	137	180
Total	84.629	32.402

Notes to the financial statements for the year ended 31 December 2008
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20. LOANS AND ADVANCES TO CUSTOMERS, NET

	31 December 2008.	31 December 2007.
<i>Short-term loans (including current portion of long-term loans):</i>		
Corporate loans	92.840	46.485
Retail loans	10.301	10.824
Current portion of long-term loans	53.491	38.697
	<u>156.632</u>	<u>96.006</u>
<i>Long-term loans (excluding current portion):</i>		
Corporate loans	151.579	103.085
Retail loans	91.712	51.556
Current portion of long-term loans	(53.491)	(38.697)
	<u>189.800</u>	<u>115.944</u>
Total loans before provision for impairment	346.432	211.950
Provision for loan impairment	(9.914)	(6.127)
Total	336.518	205.823

Changes in provision can be presented as follows:

	2008.	2007.
Balance as at 1 January	6.127	7.356
Impairment losses (Note 13)	6.393	3.656
Write-offs	(2.606)	(4.885)
Balance as at 31 December	9.914	6.127

Analysis of gross loans before provision for impairment by industry:

	31 December 2008.	31 December 2007.
Individuals	102.560	63.110
Trade	92.703	56.801
Energy sector	81.850	12.312
Services	30.898	3.888
Construction	17.139	12.767
Transport and communications	11.721	5.353
Hospitality and tourism	6.531	18.658
Agriculture and forestry	1.976	1.741
Other	1.054	37.320
Total	346.432	211.950

Amounts presented in the table above include outstanding principle, accrued interest and deferred origination fees as of 31 December 2008 and 31 December 2007, respectively.

Weighted average interest rate can be presented as follows:

	2008.	2007.
Corporate	8,81%	8,75%
Retail	9,01%	9,29%

Notes to the financial statements for the year ended 31 December 2008
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21. FINANCIAL ASSETS AVAILABLE FOR SALE, NET

	31 December 2008.	31 December 2007.
BAMCARD d.d. Sarajevo	115	115
S.W.I.F.T.	24	24
S Leasing	20	20
EBB Elektronsko bankarstvo Sarajevo	4	4
Subtotal	163	163
Less: Provision for impairment	(3)	(3)
Total	160	160

Investments are as follows:

Company	Activity	% of ownership	Country
BAMCARD d.o.o. Sarajevo	Debit and credit cards	4,73	Bosnia & Herzegovina
S.W.I.F.T.	Interbank telecommunication	-	Belgium
S Leasing d.o.o. Sarajevo	Leasing	10	Bosnia & Herzegovina
Electronic Banking Bureau d.o.o. Sarajevo	e-banking	1,88	Bosnia & Herzegovina

22. OTHER ASSETS, NET

	31 December 2008.	31 December 2007.
Prepaid income tax	1.076	835
Receivables from domestic payment transactions	708	316
Fee and commission receivable	261	279
Prepaid expenses	62	66
Receivables from assignment contracts	33	99
Equipment and consumable stores	32	15
Receivables from Credit Suisse Bank	-	2.571
Repossessed collaterals	-	715
Other	74	105
<i>Total other assets before provision</i>	<i>2.246</i>	<i>5.001</i>
Less: Provision for impairment	(158)	(489)
Total	2.088	4.512

Receivables from Credit Suisse Bank

Due to armed robbery on International Airport Sarajevo on 5 December 2007, banknotes for Credit Suisse Bank, Zurich, Switzerland in total value of KM 2,573 thousand (EUR 1,316 thousand) have been stolen at the Airport transit area.

Delivery has been insured by 'Basler Versicherungen' Basel, Switzerland ('the Insurer') and Credit Suisse Bank has submitted claim for stolen amount to the Insurer. Amount of EUR 1,316 thousand was paid on 10 March 2008.

Changes in provisions are presented as follows:

	2008.	2007.
Balance as at 1 January	489	571
Impairment losses (Note 13)	749	254
Write-offs	(1.080)	(336)
Balance as at 31 December	158	489

Notes to the financial statements for the year ended 31 December 2008
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23. PROPERTY, PLANT AND EQUIPMENT

The movements in tangible and intangible fixed assets during the year ended 31 December 2008 are summarized as follows:

	Land and buildings	Computers	Vehicles	Furniture and office equipment	Investment in progress	Leasehold improvement	Intangible assets	Total
COST								
At 31 December 2006	5.648	2.131	567	2.630	233	-	1.414	12.623
Additions	195	519	168	206	1.042	-	73	2.203
Transfer (from) / to	156	138	-	91	(461)	-	76	-
Reclassifications	-	(265)	-	265	-	-	-	-
Disposals	(339)	(271)	-	(352)	-	-	(18)	(980)
At 31 December 2007	5.660	2.252	735	2.840	814	-	1.545	13.846
Additions	135	99		1.030	2.070	396	130	3.860
Transfer (from) / to	-	96		554	(641)	-	(9)	-
Correction of error	5	-		-	-	-	-	5
Disposals	-	(256)	(87)	(80)	-	-	(13)	(436)
At 31 December 2008	5.800	2.191	648	4.344	2.243	396	1.653	17.275
ACCUMULATED DEPRECIATION								
At 31 December 2006	350	1.860	145	1.824	-	-	1.272	5.451
Depreciation charge	109	230	160	269	-	-	83	851
Disposals	(31)	(264)	-	(332)	-	-	(18)	(645)
At 31 December 2007	428	1.826	305	1.761	-	-	1.337	5.657
Depreciation charge	106	254	171	443	-	28	72	1.074
Correction of error	5	-	-	(9)	-	-	-	(4)
Reclassifications	-	-	(49)	49	-	-	-	-
Disposals	-	(256)	(16)	(71)	-	-	(13)	(356)
At 31 December 2008	539	1.824	411	2.173	-	28	1.396	6.371
Carrying amount as at 31 December 2008	5.261	367	237	2.171	2.243	368	257	10.904
Carrying amount as at 31 December 2007	5.232	426	430	1.079	814	-	208	8.189

Notes to the financial statements for the year ended 31 December 2008
(all amounts are expressed in thousands of KM, unless otherwise stated)

24. DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	31 December 2008.	31 December 2007.
<i>Deposits:</i>		
In domestic currency	129	13.440
In foreign currencies	29.337	1.804
	<u>29.466</u>	<u>15.244</u>
<i>Other borrowings:</i>		
In domestic currency	1.277	2.321
In foreign currencies	211.615	46.161
	<u>212.892</u>	<u>48.482</u>
Total	242.358	63.726

Interest rate on demand deposits ranged from 0.50% to 1% p.a. during the years ended 31 December 2008 and 2007. Interest rates on term deposits from other banks ranged from 2.00% to 6.50%, p.a. during the years ended 31 December 2008 and 2007.

Deposits as of 31 December 2008 include demand deposit in amount of EUR 15 million received from Steiermarkische Bank und Sparkassen AG.

Other borrowings are as follows:

	Short-term		Long-term	
	2008.	2007.	2008.	2007.
Steiermarkische Bank und Sparkassen AG (i)	49.324	3.260	154.274	33.574
European Fund for Southeast Europe (ii)	8.016	1.453	-	7.873
Investment Bank of Federation of Bosnia and Herzegovina (iii)	362	391	128	546
Government of Zenica-Doboj Canton (iv)	290	422	498	963
	<u>57.992</u>	<u>5.526</u>	<u>154.900</u>	<u>42.956</u>

(i) During the period from 28 February 2007 to 16 September 2008, several long-term loan agreements (in total value of EUR 85,050 thousand and maturity from 7 to 20 years) and one revolving loan agreement (EUR 20 million, with maturity on 31 December 2009) were signed between the Bank and Steiermarkische Bank und Sparkassen AG, Graz, Austria. Except for the one long-term loan who will be repaid by monthly installments, repayment for all other loans will be made on semi-annual basis.

(ii) Long-term loan agreement between the Bank and European Fund for Southeast Europe was signed as of 24 July 2006, in total amount of EUR 5 million. The loan is divided into two components: (1) fund for financing of small and medium enterprises in amount of EUR 1.5 million, with maturity in five years, and (2) fund for housing loans in amount of EUR 3.5 million, with maturity in ten years. Loan repayment is on semi-annual basis. Up to 31 December 2007, interest rate was EURIBOR + 3% p.a.; from 1 January 2008 interest rate is EURIBOR + 2% p.a.

(iii) Borrowed funds from the Investment Bank of Federation of Bosnia and Herzegovina are with the purpose of restructuring of existing loans for working capital as well as financing of development programs and projects of small and medium size enterprises in Federation of Bosnia and Herzegovina. The funds are approved for periods ranging between 2.5 - 5 years, with interest rate of 6-month EURIBOR p.a. Repayments are made in equal monthly installments.

(iv) On 24 May 2004, Zenica-Doboj Canton approved the credit line for financing of economic development and improvement of employment. Loan maturity is up to 10 years, with grace period up to 24 months, depending on particular loan approved to the final beneficiary. Interest rate is EURIBOR + 1.5% p.a., but not less than 6% p.a.

Notes to the financial statements for the year ended 31 December 2008
(all amounts are expressed in thousands of KM, unless otherwise stated)

25. DUE TO CUSTOMERS

	31 December 2008.	31 December 2007.
Demand deposits:		
<i>Individuals:</i>		
In domestic currency	29.308	28.069
In foreign currencies	13.308	12.939
	<u>42.616</u>	<u>41.008</u>
<i>Companies:</i>		
In domestic currency	36.695	54.732
In foreign currencies	3.604	6.430
	<u>40.299</u>	<u>61.162</u>
<i>Other government and non-government organizations:</i>		
In domestic currency	14.542	20.376
In foreign currencies	1.005	871
	<u>15.547</u>	<u>21.247</u>
Total A vista savings	98.462	123.417
Term deposits:		
<i>Individuals:</i>		
In domestic currency	17.106	18.512
In foreign currencies	45.606	35.579
	<u>62.712</u>	<u>54.091</u>
<i>Companies:</i>		
In domestic currency	16.416	41.056
In foreign currencies	8.777	4.643
	<u>25.193</u>	<u>45.699</u>
<i>Other government and non-government organizations:</i>		
In domestic currency	18.311	4.394
In foreign currencies	6.836	70
	<u>25.147</u>	<u>4.464</u>
Total Time Savings	113.052	104.254
Total	211.514	227.671

Interest rates on amounts due to customers have been ranged as for amounts due to other banks and financial institutions (see Note 24).

26. PROVISIONS

	31 December 2008.	31 December 2007.
Provision for legal proceedings	1.764	-
Provision for contingent liabilities (Off-Balance sheet)	1.409	1.022
Other employee benefits	615	567
Other provisions	20	
Total	3.808	1.589

Changes in provisions are presented as follows:

	Legal proceedings	Contingent liabilities	Employee benefits	Other	Total
Balance as of 1 January 2007	-	837	-	-	837
Additional provisions recognized	-	979	567	-	1.546
Reductions resulting from re-measurement or settlement without cost	-	(561)	-	-	(561)
Write-off	-	(233)	-	-	(233)
Balance as of 31 December 2007	-	1.022	567	-	1.589
Additional provisions recognized	1.764	1.518	164	20	3.466
Reductions resulting from re-measurement or settlement without cost	-	(870)	(116)	-	(986)
Write-off	-	(261)	-	-	(261)
Balance as of 31 December 2008	1.764	1.409	615	20	3.808

Contracted amount for off-balance finance instruments by which Bank taken liability of crediting commitments were as follows:

	31 December 2008.	31 December 2007.
Irrevocable credits	33.769	17.824
Performance guarantees	29.116	26.549
Payment guarantees	7.194	7.152
Letters of credit	452	155
Total	70.531	51.680

Notes to the financial statements for the year ended 31 December 2008
(all amounts are expressed in thousands of KM, unless otherwise stated)

27. OTHER LIABILITIES

	31 December 2008.	31 December 2007.
Liabilities to suppliers	772	293
Liabilities from interbank transactions	329	703
Liabilities to employees	320	383
Liabilities from on-lending activities (see Note 30)	300	489
Liabilities toward Federal Employment Institute	236	18
Liabilities for dividends	148	149
Tax payables	29	271
Other	386	174
Total	2.520	2.480

28. SHARE CAPITAL

The Bank's ownership structure was as follows:

	31 December 2008.			31 December 2007.		
	Share capital '000 KM	Number of shares	% of ownership	Share capital '000 KM	Number of shares	% of ownership
Steiermarkische Bank und Sparkassen AG, Graz, Austria	53.811	538.108	95,29	16.663	166.637	62,95
Koprom GmbH Vienna , Austria	-	-	-	2.417	24.168	9,13
Hypo-Alpe-Adria-Bank AG, Klagenfurt, Austria	-	-	-	890	8.899	3,36
Danske Fund, Luxembourg	-	-	-	226	2.261	0,85
Other	2.662	26.625	4,71	6.277	62.768	23,71
Total	56.473	564.733	100,00	26.473	364.733	100,00

Capital is made up of 564,733 ordinary shares at nominal value of KM 100.

29. RELATED-PARTY TRANSACTIONS

Transactions with related parties as at 31 December 2008 are summarized as follows:

	31 December 2008.		31 December 2007.			2008.		2007.	
	Receivables	Payables	Receivables	Payables		Income	Expenditures	Income	Expenditures
Steiermarkische Bank und Sparkassen AG, Graz, Austrija	-	203.598	-	36.835	Steiermarkische Bank und Sparkassen AG, Graz, Austrija	-	4.947	-	1.033
Total	-	203.598	-	36.835	Total	-	4.947	-	1.033

All of the transactions stated above have been made under commercial and banking terms and conditions.

Notes to the financial statements for the year ended 31 December 2008
(all amounts are expressed in thousands of KM, unless otherwise stated)

29. RELATED-PARTY TRANSACTIONS (CONTINUED)

Director's and executives' remuneration

The remuneration of directors and other members of key management during the year ended 31 December 2008 was as follows:

	2008.	2007.
Net salaries and other benefits	1.026	765
Tax and contributions on net salaries and other benefits	636	535
Total	1.662	1.300

30. ON-LENDING ACTIVITIES

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. The table below provides analysis of the funds managed on behalf of customers by investment type:

	2008.	2007.
LOANS		
Companies	21.038	23.401
Individuals	4.515	5.020
Total	25.553	28.421
LIABILITIES		
Employment agency of the Federation of Bosnia and Herzegovina	19.011	21.063
Citizens and companies	3.272	3.003
Ministry of War veterans of Zenica-Doboj Canton	1.258	904
Ministry of Trade of Bosnia-Drina Canton	810	810
International Guarantee Agency	360	1.880
Government of Zenica-Doboj Canton	318	357
Employment agency of Zenica-Doboj Canton	258	444
USAID	248	274
Humanitarian organization MOJ BLIŽNJI	165	-
Lutheran World Federation	65	65
Housing fund of Una-Sana Canton	38	44
Employment agency of Bosnia-Drina Canton	25	47
War veterans Bihac	25	19
Total	25.853	28.910
Current liabilities from managed funds activities (see Note 27)	300	489

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

Notes to the financial statements for the year ended 31 December 2008
(all amounts are expressed in thousands of KM, unless otherwise stated)

32. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board on 19 February 2009:

Maier Gerhard
Director

Zahida Karić
Executive Director

