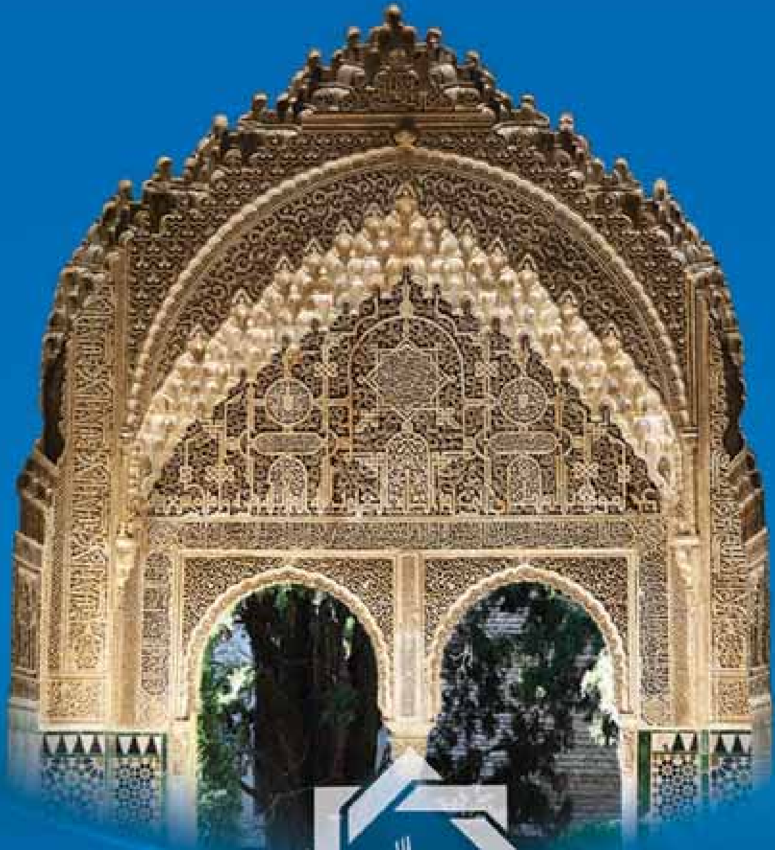
Bosna Bank International



Annual Report 2010

BBI, SOCIALLY RESPONSIBLE BANK

SARAJEVO BUSINESS FORUM, SYNONYM FOR INVESTMENTS IN B&H AND THE REGION

On 6th and 7th April 2010, there was not space for bad news from Bosnia and Herzegovina. For two days, 170 journalists from 60 editorial offices from B&H and the world was informing on B&H as destination to which 350 foreign investors had arrived with the intention to invest here their capital. Sarajevo Business Forum (SBF), the first International Investment Conference in the organization of Bosna Bank International and Group of Islamic Bank for Development was the reason for the arrival of businessmen from Saudi Arabia, UAE, Kuwait, Turkey, China, Iran, USA.

The Conference took place in four main panels: tourism, agriculture, infrastructure and energy, while the special one, the fifth panel was focused on presenting the economic potentials and climate for investment in Slovenia and Croatia.

The organizers of Forum had a clear aim: to link foreign investors with B&H companies and individuals who have projects for which the partner would be required, and in such a way, B&H would be positioned on the investment world map. Indeed, they succeeded in doing so.

In order to make the conference as efficient as possible, during the preparations, the organizers held four workshops in cooperation with the consulting house PGlobal from Turkey. During the workshops the company managers were trained to prepare their projects according to the highest international standards. 157 business projects valued at 11.5 billion Euros were presented at the conference. Each investor was presented with the Book of projects produced by the organizer had for the occasion.

Around 600 investors and distinguished foreign and domestic guests attended the plenary session of the Forum, held in the imposing hall of the Parliamentary Assembly of B&H, Dr. Haris Silajdžić, the Chairman of the Presidency BH at the time, who was the patron of SBF who along with Dr. Mahathir Mohamed, the former Prime Minister of Malaysia and Dr. Ahmad Mohamed Ali, the President of IDB Group, pointed out that B&H was economically stable State, open for investments. The Prime Minister of Turkey, Recep Tayyip Erdogan emphasized the importance of trade of B&H with the rest of the world and pointed out how SBF will help B&H in its development. Furthermore, Turkish Minister of foreign affairs, Dr. Ahmed Davutoglu said that B&H has a good strategic position within the south-east Europe and that such fact should be used, while at the same time called upon the EU to liberalize its visa regime.

Miguel Angel Moratinos Cuyaube, Minister of Foreign affairs of Spain, who tackled the same theme, clearly stated that the EU member countries are eager to advance relations between B&H and the EU. Final goal of that cooperation should be that our country obtains liberalization of visa regime.

Support to SBF was also given by James Steinberg, Deputy Secretary of State from USA, who pointed out that American companies have large interest to invest in B&H.

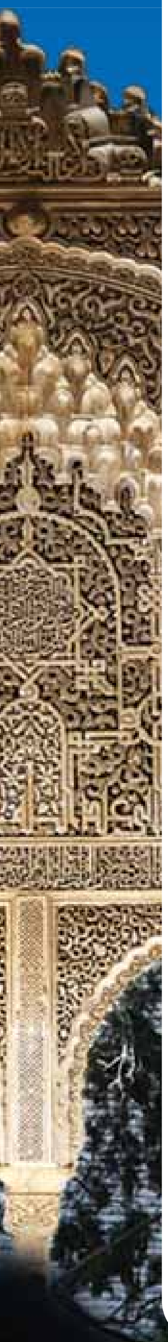
Dr. Ekmeleddin Ihsanoglu, President of the OIC, emphasized the importance of SBF which is essential for recovery of the BH economy, while the former Prime Minister of Malaysia and Chairman of GAPID, proposed that B&H should follow the example of Malaysia which achieved great economic advances as a result of major private sector involvement in the economy.

Kemal Kozarić, Governor of the Central bank of B&H spoke of stable currency, negligable inflation rates and important foreign currency reserves, while Dr. Zlatko Lagumdžija, the former Chairman of the Council of Ministers of B&H praised the fact that B&H has no political obstacles for economic growth particularly emphasizing its stability stability. Representatives of the Governments of Slovenia and Croatia addressed the Forum, stressing that B&H has an important role to play in the economy of our region.

The activities for preparation of SBF 2011 began immediately in the aftermath of SBF 2010. Thus the words of BBI director that the Forum was not going to a one day event, but rather the conference with its continuity became true.

In between the two Forums the B&H Consortium of construction companies was formed for performing construction works in CIS countries; Sarajevo, Educational Centre of the Region Initiative" was initiated; construction consortium comprising companies from all over B&H had been formed for joint operations in the foreign markets; and many other activities were made as to give to the next Forum truly regional character, by which, Sarajevo and B&H would become the centre of the Southeast Europe for attracting foreign investments. Sarajevo Business Forum is one of varied BBI engagements as a socially responsible bank, considered as a positive outcome achieved between the two conferences which attracted significant interest by investors and public alike. SBF became the synonym for attracting of foreign investments and development of our society which BBI is particularly proud of.


BBI Bosna Bank International
SARAJEVO
BUSINESS
2010



CONTENTS

STATEMENT BY THE CHAIRMAN OF THE GENERAL ASSEMBLY OF THE BANK

Chairman of the General Assembly of BBI

It gives me great pleasure to present the 2010 financial statements of Bosna Bank International ("BBI") to its stakeholders in Bosnia and Herzegovina and abroad.

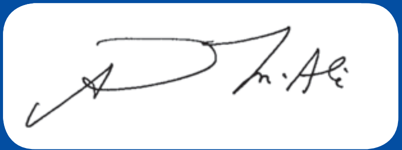
The year 2010 has been another successful year for the Bank, the first financial institution in the country and the wider region operating on Islamic banking principles. Notably, it is thanks to those principles and its fundamentally sound approach that the Bank has not only withstood the challenges of the global financial crisis but also continued its growth across all business lines. As the operating results indicate, the Bank has expanded further; a testimony to the greater trust earned of the community in which it operates. The Bank has also sustained its growth in development of products and services in order to better serve the needs of its clients.

BBI remains deeply committed to serving the society at large and has demonstrated the highest level of social awareness and responsibility in several ways. The Bank, along with its partners, has established a significant international investment conference, the Sarajevo Business Forum, which is an important bridge between our partners from South-Eastern Europe and investors from the Gulf, the Far East and others. In this regard, I would particularly like to express my thanks and appreciation to both the authorities in Bosnia and Herzegovina and the public for their generous support to the Bank in organizing this annual premier event, which aims to achieve noble development objectives.

The Bank has also extended its commitment to serving communities and facilitating access to education by providing finance through its scholarship fund which has grown manifold, thanks to those who have recognized the value of the Bank's efforts in this sphere and provided generous contributions. BBI's shareholders, i.e., the Islamic Development Bank, Dubai Islamic Bank and Abu Dhabi Islamic Bank, are pleased to convey their appreciation to all the staff of the Bank, for their dedication and hard work. Our sincere thanks and gratitude also go to the Bank's clients and partners for their trust and confidence placed in BBI.

The shareholders of BBI are committed to continuing their support to the Bank with the aim of contributing to the socio-economic development of Bosnia and Herzegovina.

Dr. Ahmad Mohamed Ali



STATEMENT BY THE CHAIRMAN OF THE SUPERVISORY BOARD OF THE BANK

Chairman of the Supervisory Board of BBI

It gives me great pleasure to present you the business results of Bosna Bank International for 2010 on behalf of its Supervisory Board. 2010 has been another successful year for BBI. In spite of serious challenges posed to financial and banking industry across the board, BBI registered positive business results.
The Banks activities in 2010 took place against the backdrop of prevailing slow economic growth posed by global financial crisis. Nonetheless, BBI kept fairly strong position. During the course of 2010 financial year economy in Bosnia and Herzegovina stabilized itself and even began an upward trend towards recovery. Signs of recovery are noticeable in the increased volume of overall industrial output, accelerating rate of exports supported by increased volume of retail sector activities and stabilization of level of foreign reserves.

However, this welcome recovery, albeit of low intensity is largely dependent on the continued flow of investments into major industrial sectors such as agricultural production, development of tourism, hydropower energy sector, education and research and development. Banks in the Federation of B&H withstood negative effects of global financial downturn reasonably well. Banking sector kept its stable position in terms of liquidity and solvency, and more importantly, their fundamentals remained strong. This positive trend is shown in the increased assets of banking sector by 1%. This positive trend is highly dependent on the decisions the authorities in charge of economic policy will make in the near to midterm in order to facilitate the larger inflow of investments and indeed other policy measures that are necessary for the long-term economic recovery.

In 2010 BBI continued to achieve noticeable positive results that were demonstrated by growth in its activities across the board, thus securing its future on the market in which it operates. In comparison with the previous year BBI succeeded to increase its assets by 25% which is 12% above the plan, while financing grew by 22% and deposits increased by respectable 39%.. This came as a result of trust of BBI clients who recognized BBI as its partner bank. Furthermore, the Bank remained steadfast in its support of the community, in line with its determination to delivering positive results within the framework of its social responsibility, as a responsible corporate citizen.

BBI prides itself of the fact that it awarded a sizable number of scholarships to university students with less fortunate income, particularly those who demonstrated keen interest in researching new frontiers in the Islamic banking and finance industries, in order to develop innovative banking products. BBI has always been keen on promoting and developing innovative islamic banking products in order to better withstand the challenges that lie ahead. To this end, a significant intellectual and human resources have been dedicated internally, within the corporate architecture of BBI, to accommodate an in-house BBI Academy which delivered large number of specialized courses for its staff, so that they can better meet the demands of ever changing consumers market.

BBI now boasts great deal of expertise and technical knowledge which can be used to further develop its presence in the country by expanding its branch activities and by venturing into the broader region. BBI management has acted decisively and prudently, particularly when it came to good risk management practices.
BBI has recognized the need to help resuscitate economic growth and contribute towards poverty reduction programs. These objectives are not easily achieved in the current economic environment. However, BBI continued its progress by further strengthening the initiative of Sarajevo Business Forum which now not only represents the single largest international investment conference in the region but it also succeeded to place the BBI brand as recognizable brand and a leading force for economic development and entrepreneurship. This came as a result on the back of farsighted vision and its ability to recognize the long term opportunities in what some may perceive as short term risks.

BBIs dedication to its employees welfare and satisfaction and continued education and growth is yet another distinguishing feature of what has now been recognized as a unique Bosnian bank. In light of the abovementioned results, I would like to express my profound gratitude and appreciation to both the management and staff of BBI for their efforts and dedication.

I should also like to thank all the clients for their continued support and loyalty.

ABDUL AZIZ AHMED AL MUHAIRI

STATEMENT BY THE DIRECTOR GENERAL/CEO OF THE BANK

Distinguished clients, business partners, associates and founders of Bosna Bank International, on behalf of the management and employees of BBI, it is my honour to present business results of the Bank in 2010.
With your support and loyalty, in the last year, BBI has positively dealt, achieved good business results and has increased the market participation in almost all segments of operations. I'm pleased to express that in 2010, BBI has recorded:

- growth of the entire operational income of the bank for 45 %
- growth of profit before the provision for 130%
- increase of total balance sum for 25 %
- increase of financing of clients for 22 %
- increase of deposit of clients for 39 %
- increase of number of debit cards for 26 %
- growth of number of clients-legal persons for 18 %
- rate of adequacy of capital maintained above legal and target rate to the excellent 22,3 %
- has maintained adequate liquidity and maturity as well as qualitatively managed with FX risk.

In the previous year BBI has established its 15th business facility, thus, Islamic banking made available to a larger number of clients and enabled jobs. The Bank has plans to further strengthen its business network, not only in FB&H, but also in the region of Republika Srpska, with the aim of better access, offering even faster and more efficient service to its clients.

We have also carried on with a continual advancement of the exsiting and designing of a new products and services, education of personnel from the sphere of Islamic banking, as well as educating and informing public on this kind of dealings.

As bank which operates in accordance with Islamic principles, BBI is socially responsible subject on the market at which operates. In 2010, BBI has increased its efforts with the aim to animate young people to advance their education, thus, besides a regular award of fifty scolarships to graduates and post-graduates from all BH Universities, in cooperation with „Sheikh Saleh Kamel" Foundation, has enabled the additional means for yet another 500 scolarships, with the annual fund of 600.000 US$. Bank has also continued with giving of financing interest-free with the purpose of viable return, and in assisting companies via BBI VIP Business Club in order to easier step forward to foreing markets and attract foreign capital.

BBI is particularly proud in organizing Sarajevo Business Forum, International Investment Conference, with the assistance of IDB Group and other partners, organized on 6th and 7th April 2010. With this Conference, BBI has opened the door to Sarajevo for foreing investments and became the link between local companies and wealthy foreign markets, offering them 157 business-projects in the value of 11,5 billions Euros. This event has positioned Sarajevo on the world investment map. B&H is recognized as destination with the positive sign, while BBI became a brand identifiable not only as financial institution that offers a different aspect of bank products and services, but also as a new name to attract foreing investments.

In the same year, BBI has began with the organization of the 2nd Sarajevo Business Forum, which now has the regional level and with this, positions Sarajevo and B&H as the centre of south-east Europe for foreign investments in the region.

This time too, BBI has offered the own personnel to organize Forum, since they proved to be a good team ready to be challenged with most demanding and varied tasks and operations, which are not only in the domain of banking.

All of this resulted with the recognition „Superbrand" that was awarded to BBI in 2010, as the only financial institution in B&H, in the selection of over 25.000 clients and 47 members of the Skilled Council, comprised of acknowledged business and market experts from media, agencies, local (domestic) and foreign corporations and Universities.

In the end, I would like once to express my gratitude to a complete team of BBI for the efforts they put in, as to achieve a positive result in an exceptionally difficult period at global level, to our Shareholders/Founders, who entered to B&H and the region, a quite new way of business dealings and thus refreshed B&H financial market, gave input to our partners and clients who recognized the power and significance of Islamic banking.

Amer Bukvić

BBI MANAGEMENT

MISSION:

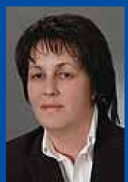
To make Islamic banking principles more comprehensible, to promote Islamic banking products in B&H and to become the leading bank in the Region in providing support and facilitating business cooperation between BH businessmen and the OIC member countries.

Amer Bukvić
Director General

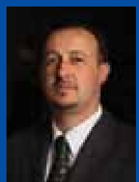
Vildana Škaljić
Executive Director

Emir Čehajić
Executive Director

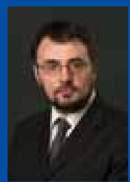
Mirza Spahić
Director of Legal Division



Ganiba Adilović
Acting Director of Strategic Planning and Financial Control Division



Muhamed Prlja
Director of Retail Banking Division



Semir Ibrahimović
Director of IT Division

Salih Purišević
Secretary General of the Bank

Emina Šišić
Director of Operations Division

Mirsada Čengić
Director of Treasury and FI Division

Samir Suljević
Director of HR and Administration Division

Nusreta Pidro
Director of Credit and Market Risk Management Division

Safet Proho
Chief Internal Auditor

Sedika Vražalica
Director of Corporate Banking

REPORT OF THE MANAGEMENT BOARD

The Management Board has pleasure in submitting its report together with the audited financial statements for the year ended 31 December 2010.

Review of operations

The result for the year ended 31 December 2010 of the Bank is set out in the income statement on page 5.

Supervisory Board, Audit Board, Sharia'h Board and Management Board

During the course of 2010 and up to the date of this report, the Supervisory Board comprised:

Supervisory Board:

Abdul Aziz Ahmed Al-Muhairi	Chairman
Khaled M.N. Al Aboodi	Vice Chairman
Hasan Demirhan	Member
Ahmed Junaid	Member
Abdulla Al Shehi	Member (up to 18^{th} January 2010)
Andrew Douglas Moir	Member (as from 18^{th} January 2010)

Audit Board:

Harun Kapetanović	Chairman
Faisal Hameed	Vice Chairman (up to 3^{rd} March 2010)
Mostafa Mahmoud Mostafa	Vice Chairman (as from 3^{rd} March 2010)
Nuhad Saliba	Member
Mehmet Kamil Tumer	Member
Edin Brkić	Member

Sharia'h Board:

Prof. Dr. Mustafa Cerić	Chairman
Dr. Abdulsattar Abu Ghuddah	Vice Chairmal
Dr. Nizam Al-Yaqoobi	Member
Dr. Šukrija Ramić	Member
Saleh Michael Gassner	Member

Management Board:

As of 31 December 2010 the Management Board comprised director and 2 executive directors. The persons who served as executive directors during the year and up to the date of this report are as follows:

Amer Bukvić	Director
Vildana Škaljić	Executive director
Emir Ćehajić	Executive director (as from 24th August 2010)

On behalf of the Management Board

Amer Bukvić
Director

RESPONSIBILITY OF THE MANAGEMENT AND SUPERVISORY BOARD FOR THE PREPARATION AND APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The Management Board is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Bank and of the results of its operations and cash flows, in accordance with statutory requirements for banks in the Federation of Bosnia and Herzegovina, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; making judgements and estimates that are reasonable and prudent; and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Bank together with the annual financial statements, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

The financial statements set out on pages 5 to 54 were authorised by the Management Board on 25 March 2011 for issue to the Supervisory Board and are signed below to signify this.

Signed on behalf of the Management Board:

Amer Bukvić	Vildana Škaljić
Director	*Executive Director*

Bosna Bank International d.d.
Trg Djece Sarajeva bb
71000 Sarajevo
Bosnia and Herzegovina

25 March 2011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INDEPENDENT AUDITORS' REPORT

To the shareholders of Bosna Bank International d.d.

We have audited the accompanying financial statements of Bosna Bank International d.d. ("the Bank"), which comprise the balance sheet as at 31 December 2010 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.
The financial statements as of and for the year ended 31 December 2009 were audited by another auditor whose report dated 5 February 2010 expressed an unqualified opinion on those financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting regulations of the Banking Agency of the Federation of Bosnia and Herzegovina and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' 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 about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting 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 opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with the accounting regulations of the Banking Agency of the Federation of Bosnia and Herzegovina as set out in Note 2 to the financial statements.

KPMG B-H d.o.o. za reviziju
25 March 2011
Registered auditors
Fra Anđela Zvizdovića 1
71000 Sarajevo
Bosnia and Herzegovina

D.O.O. ZA REVIZIJU
KPMG B-H
1
SARAJEVO

On behalf of KPMG B-H d.o.o. za reviziju:

Manal Bećirbegović
Director

Senad Pekmez
FBIH registered auditor
Licence number: 3090044102/10

This version of our report is a translation from the original, which was prepared in Bosnian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

(all amounts are expressed in thousands of BAM)

	Notes	2010	2009
Income from operations with banks (Murabaha, Wakala) and from financing retail and corporate sector (Musharaka and Ijara)		15,358	13,639
Expenses in respect of amounts due to customers and to banks (Wakala)		(6,079)	(5,039)
Net income from financing and investments	**6**	**9,279**	**8,600**
Fee and commission income	7	5,324	4,227
Fee and commission expense		(736)	(700)
Net fee and commission income		**4,588**	**3,527**
Net financial gain / (loss)	8	148	109
Other operating income	9	4,271	115
Operating income		**4,419**	**224**
Personnel expenses	10	(6,343)	(5,771)
Depreciation expenses		(842)	(814)
Other operating expenses	11	(6,050)	(3,640)
Operating expense		**(13,235)**	**(10,225)**
PROFIT before PROVISIONS AND INCOME TAX		**5,051**	**2,126**
Net impairment losses and provisions	12	(5,014)	(1,936)
Amounts collected from previously written-off receivables	13	387	238
PROFIT BEFORE INCOME TAXES		**424**	**428**
Taxation	14	(7)	32
NET PROFIT FOR THE YEAR		**417**	**460**

The notes set out on pages 9 to 54 form an integral part of these financial statements

BALANCE SHEET AS AT 31 DECEMBER 2010

(all amounts are expressed in thousands of BAM)

	Notes	2010	2009
ASSETS			
Cash and balances with banks	15	38,547	59,399
Obligatory reserve with the Central Bank	16	23,458	15,973
Placements with banks	17	62,590	14,994
Assets available for sale	18	57	56
Financial assets at fair value through profit or loss	19	487	467
Financing of customers	20	172,636	143,829
Income tax prepayments		153	151
Other assets	21	496	468
Deferred tax assets	29	25	32
Property and equipment	22	8,550	8,444
Intangible assets	23	115	1,770
TOTAL ASSETS		**307,114**	**245,583**
LIABILITIES			
Due to banks	25	29,544	29,527
Due to customers	24	223,700	160,697
Borrowings	26	804	603
Other liabilities	27	2,620	4,852
Provisions for liabilities and charges	28	1,369	1,244
Total liabilities		**258,037**	**196,923**
SHAREHOLDERS' EQUITY			
Share capital	29	50,059	50,059
Reserves		23	23
Accumulated losses		(1,005)	(1,422)
Total shareholders' equity		**49,077**	**48,660**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**307,114**	**245,583**

The notes set out on pages 9 to 54 form an integral part of these financial statements

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

(all amounts are expressed in thousands of BAM)

	2010	2009
Cash flow from operating activities		
Profit for the year	417	460
Adjustments for:		
Depreciation and amortization	842	814
Net impairment losses and provisions	5,014	1,936
Provisions for employee benefits	30	11
Fair value adjustment	88	60
Dividend income	(29)	(24)
Write off of intangible assets	1,635	-
Income tax expense/(benefit)	7	(32)
Cash flow from operating activities before changes in operating assets and liabilities	**8,004**	**3,225**
(Increase)/decrease in obligatory reserve with the Central Bank	(7,485)	2,646
(Increase)/decrease in placements with banks	(47,927)	29,334
Increase in financing of customers	(33,361)	(38,056)
Increase in other assets	(47)	(256)
Increase in income tax prepayments	(2)	(35)
Increase/(decrease) in amounts due to banks	17	(681)
Increase in amounts due to customers	63,003	48,768
Decrease in other liabilities	(2,232)	(1,358)
Decrease in provisions for liabilities and charges	(15)	-
NET CASH FROM OPERATING ACTIVITIES	**(20,045)**	**43,587**
Investing Activities		
Purchase of assets available for sale	(1)	-

The notes set out on pages 9 to 54 form an integral part of these financial statements

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

(all amounts are expressed in thousands of BAM)

	2010	2009
Purchase of financial assets at fair value through profit and loss	(108)	(2)
Purchase of property and equipment	(890)	(1,090)
Purchase of intangible assets	(38)	(138)
Dividends received	29	24
NET CASH FROM INVESTING ACTIVITIES	(1,008)	(1,206)
Financing Activities		
Increase in borrowings	201	469
NET CASH FROM FINANCING ACTIVITIES	201	-
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(20,852)**	**42,850**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**59,399**	**16,549**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**38,547**	**59,399**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

(all amounts are expressed in thousands of BAM)

	Share capital	Reserves	Accumulated losses	Total
Balance as at 1 January 2009	**50,059**	**23**	**(1,882)**	**48,200**
Profit for the year	-	-	460	460
Balance as at 31 December 2009	**50,059**	**23**	**(1,422)**	**48,660**
Profit for the year	-	-	417	417
Balance as at 31 December 2010	**50,059**	**23**	**(1,005)**	**49,077**

The notes set out on pages 9 to 54 form an integral part of these financial statements

1. GENERAL

Activities

Bosna Bank International d.d., Sarajevo, Trg djece Sarajeva bb, 71000 Sarajevo (the "Bank") was registered in 2000 and made its first transactions in early 2001.

The main activities of the Bank include the following banking services: financing of enterprises and citizens, collection of deposits, money market activities, foreign currency exchange and other banking-related activities.

2. BASIS OF PRESENTATION

Statement of compliance

As indicated in Note 1 above, the Bank is incorporated in the Federation of Bosnia and Herzegovina ("FBiH"), within the state of Bosnia and Herzegovina and is subject to the laws and regulations of the FBiH and the state of Bosnia and Herzegovina. In particular, the Bank's operations are subject to the Law on Accounting and Auditing of the Federation of Bosnia and Herzegovina, the Banking Law and other relevant banking regulations in accordance with which the Bank is regulated by the Banking Agency of the Federation of Bosnia and Herzegovina ("the Agency") which is the central monitoring institution of the banking system in the FBiH, and is required to prepare financial statements in accordance with the accounting and financial reporting regulations of the Banking Agency of the Federation of Bosnia and Herzegovina.

The Bank is also required by its shareholders to operate in accordance with Islamic banking principles, and, in particular has developed products to comply with such principles. Consequently, the Bank has chosen to present these financial statements using the terminology for income and income-earning assets applicable to such products under Islamic banking principles. The terms used are defined below. The amounts recognised in these financial statements, calculated in accordance with Islamic banking principles and described in the terms defined below, correspond materially with the accounting requirements of the Agency, which, however, do not specifically embrace Islamic banking principles.

The accounting and financial reporting regulations of the Agency differ in certain important respects from International Financial Reporting Standards ("IFRS"). Accordingly these financial statements are nor equivalent to, and do not purport to be financial statements prepared in accordance with IFRS.

The principal accounting policies used in the preparation of the financial statements are summarised below and in Note 3.

The Bank's financial statements were authorized for issue by the Management Board on 25 March 2011.

2. BASIS OF PRESENTATION (CONTINUED)

Definitions

The following terms for Islamic financial instruments are used in the financial statements with the meaning specified:

Murabaha
An agreement whereby the Bank sells to a customer a commodity or asset, which the Bank has purchased and acquired based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin.

Musharaka
An agreement between the Bank and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared according to the agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise.

Wakala
An agreement whereby one party provides a certain sum of money to an agent, who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

Ijara
Ijara is an agreement whereby the bank purchases certain property or equipment which is then leased to the customer.

Functional and presentation currency

The financial statements are presented in Bosnian Convertible Marks ("BAM"), which is the functional currency. Amounts are rounded to the nearest thousand (unless otherwise stated).

The Central Bank of Bosnia and Herzegovina ("CBBH") implemented a currency board arrangement aligning BAM to EURO at an exchange rate of EUR 1: BAM 1.95583 throughout 2010 and 2009. This is expected to continue in the foreseeable future.

Basis of measurement

The financial statements are prepared under historical cost convention except for financing of customers which is presented at amortised cost and financial assets at fair value through profit and loss which are stated at fair value.

Use of estimate and judgments

In preparing the financial statements, management has made judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expense for the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and information available at the date of the preparation of the financial statements, the result of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. 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 revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 5.

3. SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary assets and items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated at the reporting date.

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

Net income from financing and investments

Net income from financing represents the Bank's share in income from investments made by its clients from funds financed to them by the Bank, net of the cost of attracting the funds used for investments.

Murabaha and Wakala
Income is recognised over the period of the contract using the effective yield method.

Musharaka, Ijara
Income is accounted for on the basis of the reducing balance on a time-apportioned basis that reflects the effective yield on the asset.

According to Islamic principles, funds on customers' current and term accounts may be used as one of the sources for Musharaka and expenses of the Bank relating to customer accounts are recognized as costs of investments in Musharaka.

According to Shariah laws, the Bank is not allowed to earn interest income. Any interest earned is given to charity on a yearly basis.

Fee and commission income and expenses

Fees and commission income and expense comprises mainly fees receivable from customers for guarantees, letters of credit, domestic and foreign payments, card business and other services provided by the Bank, where the fee is credited to income when the related service is performed.

Origination fees for customer financing arrangements, after approval and drawdown of funds, are deferred and recognized as an adjustment to the effective yield of the financing over its life.

Dividend income

Dividend income from equity securities is recognised in the income statement when the rights to receive the dividend are established.

Lease payments

Payments made under operating leases where the Bank is the lessee are recognised in profit or loss on a straight-line basis over the term of the lease.

Income tax

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 reporting 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.

Financial instruments

Classification

The Bank classifies its financial instruments in the following categories: financing of customers, financial assets at fair value through profit or loss, available-for-sale financial assets and other financial liabilities. The classification depends on the purpose for which the financial assets and liabilities were acquired. The management determines the classification of financial assets and liabilities upon initial recognition and re-evaluates this classification at every balance sheet date.

01. Financing of customers

Financing to customers comprises non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financing of customers occurs when the Bank provides money directly to a debtor with no intention of trading with the receivables.

02. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss have two sub-categories: financial instruments held for trading (including derivatives), and those designated by the management as at fair value through profit or loss at inception. A financial instrument is classified in this category mainly if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term, for the purpose of short-term profit-taking, or designated as such by the management.

03. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Financial assets classified as available for sale are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in profit margins, foreign exchange rates, or equity prices. Available-for-sale financial assets include equity securities.

04. Other financial liabilities

Other financial liabilities comprise all financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Recognition

Financing of customers and other financial liabilities are recognised when advanced to borrowers or received from lenders.

Financial assets available for sale and financial assets at fair value through profit or loss are recognised on the trade date.

Initial and subsequent measurement

Financial instruments are initially measured at the fair value of acquisition cost.

Financing of customers and other financial liabilities are subsequently measured at amortised cost.

Available-for-sale financial assets are measured initially at their fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequent to initial recognition available-for-sale financial assets are measured at fair value, except for equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost, including transaction costs, less impairment. Financial assets at fair value through profit or loss are initially recognised at fair value. All transaction costs are immediately expensed. Subsequent measurement is also at fair value.

Derecognition

The Bank derecognises financial assets (in full or part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights on those financial assets. This occurs when the Bank transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realised, surrendered or have expired.

The Bank derecognises financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Bank will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

Impairment of financial assets

01. Financial assets carried at amortised cost

The Bank is obliged to review financial assets at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Financing of customers are presented net of impairment provisions for uncollectability. Specific impairment provisions are made against the carrying amount of financing of customers that are identified as being impaired based on regular reviews of outstanding balances.

Impaired financial assets are graded into categories according to their deemed recoverability, which is based on the level of overdue receivables, on an assessment of the borrower's financial position, and on the quality of any collateral secured. Provisions are then determined by applying provisioning rates, within the range prescribed by the Agency, to the principal amount outstanding.
The Bank recognises a collective impairment provision for performing assets calculated at a prescribed rate of 2%.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

An increase in impairment provisions is recognised in the income statement. When a receivable from financing of customers is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the receivable is written-off directly. If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or provision is reversed through the income statement.

02. Financial assets carried at cost

These include equity securities classified as available for sale for which there is no reliable fair value. The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

An impairment loss is calculated as the difference between the carrying amount of the financial asset and the present value of expected future cash receipts discounted by the current market rates for similar financial assets. Impairment losses on such instruments, recognised in the income statement, are not subsequently reversed through the income statement.

Specific financial instruments

01. Cash and cash equivalents

For the purpose of preparation of the cash flow statement, cash and cash equivalents comprise amounts classified as cash reserves in the balance sheet and include cash in hand, items in the course of collection and current accounts with the Central Bank and with other banks.

02. Placements with banks (Murabaha)

Murabaha deals are investments into commercial commodities purchased under agreement to resell, which are recorded as placements with other banks. The difference between sell and repurchase price is treated as return rate on investments and accrued over the life of repurchase agreements using the effective yield method. These investments are classified as originated financial instruments and are carried at amortized cost.

All regular way purchases and sales of investments are recognized at trade date, which is the date that the Bank commits to purchase or to sell assets.

03. Financing of customers

Financing of customers are presented at amortised cost net of impairment allowances to reflect the estimated recoverable amounts.

04. Equity securities

Equity securities are classified as available for sale and carried at fair value, unless there is no reliable measure of the fair value, in which case equity securities are stated at cost, less any impairment.

05. Borrowings

Profit-margin-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, Profit-margin-bearing borrowings are stated at amortised cost with any difference between proceeds (net of transaction costs) and redemption value being recognised in the income statement over the period of the borrowings on an effective rate basis.

06. Due to banks and customers

Amounts due to banks and customers are classified as other liabilities and initially measured at fair value plus transaction costs, and subsequently stated at their amortised cost using the effective yield method.

(all amounts are expressed in thousands of BAM)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Property and equipment

Property 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:

	2010	2009
Buildings	1.3 – 2.0%	1.3 – 2.0%
Computers	20.0 – 33.3%	20.0 – 33.3%
Motor vehicles	15.5%	15.5%
Other equipment	7.0 – 33.3%	7.0 – 33.3%

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Intangible assets

Intangible assets acquired by the Bank are stated at historical cost less accumulated amortisation and impairment losses.

Depreciation is provided on all intangible assets except assets in the course of construction on a straight line basis at prescribed rates designed to write off the cost over the estimated useful lives of the assets. The following estimated useful lives are used:

Software and licences	5 years

Depreciation method and useful lives are reassessed, and adjusted if appropriate, at each balance sheet date.

Employee benefits

Short term benefits

The Bank pays pension and health insurance on behalf of its employees, which is calculated on the gross salary paid, as well as taxes on salaries, which are calculated on the net salary paid. The Bank pays the above contributions into the state pension and health fund, according to statutory rates during the course of the year. In addition, meal allowances, transport allowances and vacation bonuses are paid in accordance with local legislation. These expenses are recorded in the income statement in the period in which the salary expense is incurred.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Long-term benefits: retirement severance payments and early retirement bonuses

The Bank pays to its employees retirement severance benefits upon retirement in an amount representing three times the average salary in the FBiH as calculated by the Federal Bureau of Statistics or three times the salary of the employee in question (depending of what is more favourable to the employee).

The obligation and costs of these benefits are determined by using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the estimated interest rate on government bonds.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made, or as required by law in the case of provisions for unidentified impairment of off-balance-sheet credit risk exposures.

Provisions for liabilities and charges are maintained at the level that the Bank's management considers sufficient for absorption of incurred losses. The management determines the sufficiency of provisions on the basis of insight into specific items, current economic circumstances, risk characteristics of certain transaction categories, as well as other relevant factors.

Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share capital

Share capital

Share capital comprises ordinary shares and is stated in BAM at nominal value.

Dividends

Dividends on ordinary shares are recognised as a liability in the period in which they are approved by the Bank's shareholders.

Off-balance-sheet commitments and contingent liabilities

In the ordinary course of business, the Bank enters into credit-related commitments which are recorded in off-balance-sheet accounts and primarily comprise guarantees, letters of credit and undrawn financing of customers commitments. Such financial commitments are recorded in the Bank's balance sheet if and when they become payable.

Managed funds for and on behalf of third parties

The Bank manages funds for and on behalf of corporate and retail clients. These amounts do not represent the Bank's assets and are excluded from the balance sheet. For the services rendered the Bank charges a fee.

Reclassification

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

4. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk. Market risk includes currency risk, profit margin and other price risk.

The Bank has established an integrated system of risk management by introducing a set of policies and procedures for analysis, evaluation, acceptance and risk management. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business.

The Management Board has overall responsibility for the establishment and oversight of the Bank's risk management framework.

Risk management is carried out by the Bank's departments in charge for individual risks under policies approved by the Management Board.

Risk steering and risk controlling processes are adjusted in a timely manner to reflect changes in the operating environment.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Bank's exposure to credit risk is managed so that exposures to portfolios and individual counterparties/group of counterparties are reviewed on a regular basis, taking into account set limits. The limits of credit risk are determined in relation to the Bank's guarantee capital (as prescribe by the Agency). Exposure to credit risk is also managed in part by obtaining collateral and personal guarantees.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Collateral

With a view to minimising credit risk, the Bank has a rulebook for security for financing of customers and other placements and secures its credit exposures by taking one or more of the following instruments:

- cash,
- guarantors (retail and corporate),
- mortgages over properties,
- pledges over movable assets
- other rights over receivables.

The fair value of real estate and other assets charged as collateral is estimated by independent, external surveyors.

Credit risk management and impairment and provision policies

The Bank accounts for counterparty risks arising from the customer financing portfolio by making allowances for impaired assets. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In accordance with the "Decision regulating minimum standards for credit risk management and bank assets classifications" ("the Decision") of the Agency, financing of customers and risk-bearing off-balance-sheet items are classified into the following categories with the following rates of impairment:

Bank's rating	Category description	Provisioning rates prescribed by the Agency
A	Performing assets	2%
B	Standard monitoring	5% – 15%
C	Special monitoring	16% – 40%
D + E	Impaired assets	41% – 100%

The classification of financing of customers and risk-bearing off-balance-sheet items is made in accordance with the Decision. Besides the level of overdue receivables, the assessment of impairment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

(all amounts are expressed in thousands of BAM)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

The table below shows gross amount of assets subject to credit risk for each of the Bank's rating categories, together with related amount of impairment provisions:

Bank's rating 31 December 2010	Performing assets BAM'000	Standard monitoring BAM'000	Special monitoring BAM'000	Impaired assets BAM'000	Total BAM'000
Current accounts with the Central Bank and with other banks	32,421	-	-	-	**32,421**
Impairment provision	-	-	-	-	**-**
Obligatory reserve with the central bank	23,458	-	-	-	**23,458**
Impairment provision	-	-	-	-	**-**
Placements with banks	63,146	-	-	-	**63,146**
Impairment provision	(556)	-	-	-	**(556)**
Financing of customers	151,140	22,512	3,701	2,808	**180,161**
Impairment provision	(2,967)	(1,900)	(982)	(1,676)	**(7,525)**
Income tax prepayments	153	-	-	-	**153**
Impairment provision	-	-	-	-	**-**
Other assets	570	-	-	-	**570**
Impairment provision	(74)	-	-	-	**(74)**

(all amounts are expressed in thousands of BAM)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Bank's rating 31 December 2009	Performing assets BAM'000	Standard monitoring BAM'000	Special monitoring BAM'000	Impaired asses BAM'000	Total BAM'000
Current accounts with the Central Bank and with other banks	53,597	-	-	-	**53,597**
Impairment provision	-	-	-	-	**-**
Obligatory reserve with the central bank	15,973	-	-	-	**15,973**
Impairment provision	-	-	-	-	**-**
Placements with banks	15,218	-	-	-	**15,218**
Impairment provision	(224)	-	-	-	(224)
Financing of customers	137,914	8,343	479	1,245	**147,981**
Impairment provision	(2,697)	(605)	(117)	(733)	**(4,152)**
Income tax prepayments	151	-	-	-	151
Impairment provision	-	-	-	-	**-**
Other assets	571	-	-	-	**571**
Impairment provision	(103)	-	-	-	(103)

(all amounts are expressed in thousands of BAM)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Maximum exposure to credit risk before collateral held or other credit enhancement

	Maximum exposure	
	2010	2009
Balance sheet exposure		
Current accounts with the Central Bank and with other banks	**32,421**	53,597
Obligatory reserve with the Central Bank	**23,458**	15,973
Placements with banks	**62,590**	14,994
Financing of customers		
- Retail	**55,022**	44,695
- Corporate	**117,614**	99,134
Income tax prepayments	**153**	151
Other assets	**496**	468
Total balance sheet credit risk exposures	**291,754**	**229,012**
Off-balance sheet exposure		
Financing of customers commitments	**12,899**	15,422
Financial guarantees and letters of credit	**43,432**	43,905
Total off-balance sheet credit risk exposures	**56,331**	**59,327**
Total	**348,085**	**288,339**

For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported at the balance sheet.
The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2010 and 31 December 2009, without taking account of any collateral held or other credit enhancements attached.

The Bank holds collateral as security for financing of customers in the form of mortgages over property, other pledges over assets and guarantees. Estimates of the value of collateral are based on the value of collateral assessed at the time of initiation of the financing by chartered court surveyors. The Bank generally does not make a reassessment of collateral.

(all amounts are expressed in thousands of BAM)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Concentration of risks of portfolio of financing of customers per economic sectors

The Bank monitors concentrations of credit risk by economic sector and by geographic location. The concentration of risk in the gross balance sheet exposures by economic sectors is as follows:

Economic sector risk concentrations

	2010	2009
Agriculture, forestry and fisheries	**893**	738
Manufacturing	**39,180**	32,379
Construction	**15,945**	13,178
Retail and wholesale trade	**50,967**	42,121
Tourism	**4,210**	3,479
Transport and communications	**4,206**	3,477
Financial institutions	**1,503**	1,242
Real estate	**2,329**	1,924
Other	**2,119**	1,751
Education and other public services	**38**	32
Entrepreneurs	**2,103**	1,738
Total corporate	**123,493**	102,059
Housing	**31,590**	20,322
Other	**25,078**	25,600
Total retail	**56,668**	45,922
Total	**180,161**	147,981

The structure of the portfolio of financing of customers is regularly reviewed within the Risk Department and Credit Committee in order to identify potential events which could have an impact on large areas of the portfolio of financing of customers (common risk factors) and if necessary limit the exposure toward certain sectors of the economy.

Financing of customers is mostly given to customers in Bosnia and Herzegovina.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in profit margin, foreign currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit margin, credit spreads, foreign exchange rates and equity prices.

The Management Board sets limits and guidelines for monitoring and mitigating of market risks, which is regularly monitored by risk committees of the Bank.

Foreign exchange risk

Exposure to currency risk arises from credit, deposit-taking and trading activities and is controlled on a daily basis in accordance with legal limits for each currency, as well as in total amounts for assets and liabilities denominated in or linked to foreign currencies.

Treasury department is responsible for daily management of the Bank's currency position in accordance with legal and internal regulations.

In order to manage foreign exchange rate risk more efficiently, the Bank monitors economic and other business changes in the environment in order to predict possible changes in foreign currency activities, exchange rates, currencies and risk.

(all amounts are expressed in thousands of BAM)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign exchange risk (continued)

Concentration of currency risk of assets and liabilities

The Bank had the following significant currency positions as at 31 December 2010 and 31 December 2009. The Bank has a number of contracts which are in domestic currency but are linked to foreign currency. The domestic currency value of the principal balances and profit margin payments are therefore determined by movements in foreign currencies. These balances, which have foreign exchange risk, are included in the "EUR linked" column:

As at 31 December 2010	BAM	EUR linked	EUR	USD	Other FX	Total
Assets						
Cash and balances with banks	18,693	-	13,700	5,084	1,070	38,547
Obligatory reserve with the Central Bank	23,458	-	-	-	-	23,458
Placements with other banks	-	-	61,006	1,584	-	62,590
Assets available for sale	29	-	-	28	-	57
Financial assets at fair value through profit or loss	358	-	129	-	-	487
Financing of customers	84,654	87,885	97	-	-	172,636
Income tax prepayments	153	-	-	-	-	153
Other assets	441	-	44	11	-	496
Deferred tax assets	25	-	-	-	-	25
Property and equipment	8,550	-	-	-	-	8,550
Intangible assets	115	-	-	-	-	115
Total assets	**136,476**	**87,885**	**74,976**	**6,707**	**1,070**	**307,114**
Liabilities and equity						
Due to banks	-	-	29,544	-	-	29,544
Due to customers	82,990	38,212	95,486	6,624	388	223,700
Borrowings	804	-	-	-	-	804
Other liabilities	2,014	-	191	100	315	2,620
Provisions for liabilities and charges	1,369	-	-	-	-	1,369
Share capital and reserves	49,077	-	-	-	-	49,077
Total liabilities and equity	**136,254**	**38,212**	**125,221**	**6,724**	**703**	**307,114**
Net foreign exchange position	**222**	**49,673**	**(50,245)**	**(17)**	**367**	**-**

(all amounts are expressed in thousands of BAM)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign exchange risk (continued)

As at 31 December 2009	BAM	EUR linked	EUR	USD	Other FX	Total
Assets						
Cash and balances with banks	51,406	-	5,472	2,154	367	59,399
Obligatory reserve with the Central Bank	15,973	-	-	-	-	15,973
Placements with other banks	-	-	14,927	67	-	14,994
Assets available for sale	29	-	-	27	-	56
Financial assets at fair value through profit or loss	311	-	156	-	-	467
Financing of customers	80,719	63,048	62	-	-	143,829
Income tax prepayments	151	-	-	-	-	151
Other assets	300	-	35	131	2	468
Deferred tax assets	32	-	-	-	-	32
Property and equipment	8,444	-	-	-	-	8,444
Intangible assets	1,770	-	-	-	-	1,770
Total assets	**159,135**	**63,048**	**20,652**	**2,379**	**369**	**245,583**
Liabilities and equity						
Due to banks	-	-	29,527	-	-	29,527
Due to customers	61,978	19,118	76,983	2,302	316	160,697
Borrowings	603	-	-	-	-	603
Other liabilities	1,757	-	3,023	71	1	4,852
Provisions for liabilities and charges	1,244	-	-	-	-	1,244
Share capital and reserves	48,660	-	-	-	-	48,660
Total liabilities and equity	**114,242**	**19,118**	**109,533**	**2,373**	**317**	**245,583**
Net foreign exchange position	**44,893**	**43,930**	**(88,881)**	**6**	**52**	**-**

(all amounts are expressed in thousands of BAM)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Profit margin risk

The Bank's activities are affected by changes in profit margin in that profit margin bearing assets and liabilities mature, or their profit margin are changed, at different times or in different amounts.

The majority of the customer financing portfolio is initially contracted at profit margin rates that are linked with movement in 6 months or 1 year EURIBOR. The Management Board changes these rates in response to changes in the prevailing market rates.

Profit margin rate sensitivity of assets and liabilities

The tables below summarize the Bank's exposure to profit margin risks at year end. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

As at 31 December 2010	No profit margin	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 year	Over 5 years	Total	Amounts subject to fixed profit margin
Assets								
Cash and balances with banks	23,302	15,245	-	-	-	-	38,547	15,245
Obligatory reserves with the Central Bank	-	23,458	-	-	-	-	23,458	23,458
Placements with banks	-	48,048	13,800	742	-	-	62,590	62,590
Assets available for sale	57	-	-	-	-	-	57	-
Financial assets at fair value through profit or loss	487	-	-	-	-	-	487	-

(all amounts are expressed in thousands of BAM)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Profit margin risk (continued)

As at 31 December 2010	No profit margin	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 year	Over 5 years	Total	Amounts subject to fixed profit margin
Assets								
Financing of customers	23,995	24,006	41,856	78,386	4,199	194	172,636	49,423
Income tax prepayment	153	-	-	-	-	-	153	-
Other assets	496	-	-	-	-	-	496	-
Deferred tax assets	25	-	-	-	-	-	25	-
Property and equipment	8,550	-	-	-	-	-	8,550	-
Intangible assets	115	-	-	-	-	-	115	-
Total assets	**57,180**	**110,757**	**55,656**	**79,128**	**4,199**	**194**	**307,114**	**150,716**
Liabilities and equity								
Due to banks	-	-	9,797	19,747	-	-	29,544	-
Due to customers	78,128	24,347	9,045	65,405	44,515	2,260	223,700	144,755
Borrowings	-	-	-	-	-	804	804	804
Other liabilities	2,620	-	-	-	-	-	2,620	-
Provisions for liabilities and charges	1,369	-	-	-	-	-	1,369	-
Share capital and reserves	49,077	-	-	-	-	-	49,077	-
Total liabilities and equity	**131,194**	**24,347**	**18,842**	**85,152**	**44,515**	**3,064**	**307,114**	**145,559**
Profit margin gap	**(74,014)**	**86,410**	**36,814**	**(6,024)**	**(40,316)**	**(2,870)**	**-**	**5,157**

(all amounts are expressed in thousands of BAM)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Profit margin risk (continued)

As at 31 December 2009	No-profit margin	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 year	Over 5 years	Total	Amounts subject to fixed profit margin
Assets								
Cash and balances with banks	11,181	48,218	-	-	-	-	59,399	48,218
Obligatory reserves with the Central Bank	-	15,973	-	-	-	-	15,973	15,973
Placements with banks	-	3,999	3,999	6,996	-	-	14,994	14,994
Assets available for sale	56	-	-	-	-	-	56	-
Financial assets at fair value through profit or loss	467	-	-	-	-	-	467	-
Financing of customers	27,176	11,417	16,378	85,652	3,187	19	143,829	41,779
Income tax prepayment	151	-	-	-	-	-	151	-
Other assets	468	-	-	-	-	-	468	-
Deferred tax assets	32	-	-	-	-	-	32	-
Property and equipment	8,444	-	-	-	-	-	8,444	-
Intangible assets	1,770	-	-	-	-	-	1,770	-
Total assets	**49,745**	**79,607**	**20,377**	**92,648**	**3,187**	**19**	**245,583**	**120,964**

(all amounts are expressed in thousands of BAM)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Profit margin risk (continued)

As at 31 December 2009	No-profit margin	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 year	Over 5 years	Total	Amounts subject to fixed profit margin
Assets								
Liabilities and equity								
Due to banks	-	-	9,787	19,740	-	-	29,527	-
Due to customers	43,402	18,791	10,169	66,825	21,301	209	160,697	119,135
Borrowings	-	-	-	-	-	603	603	603
Other liabilities	4,852	-	-	-	-	-	4,852	-
Provisions for liabilities and charges	1,244	-	-	-	-	-	1,244	-
Share capital and reserves	48,660	-	-	-	-	-	48,660	-
Total liabilities and equity	**98,158**	**18,791**	**19,956**	**86,565**	**21,301**	**812**	**245,583**	**119,738**
Profit margin gap	**(48,413)**	**60,816**	**421**	**6,083**	**(18,114)**	**(793)**	**-**	**1,226**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

Liquidity risk arises in the funding of the Bank's activities and in the management of its positions. The Bank consolidates its operations in respect of liquidity risk in accordance with applicable regulation and internal policies aimed at maintenance of liquidity reserves, harmonisation of assets and liabilities with targeted liquidity indicators and liquidity limits.

The Bank has access to various funding sources, including different types of deposits from retail and corporate clients, borrowings and share capital. This increases the flexibility of funding sources, decreases dependence on one source and generally ensures better management of financing cost.

The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

Tables below analyse the assets and liabilities of the Bank at 31 December 2010 and 2009 into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity except for equity securities available for sale which have been classified in accordance with their secondary liquidity characteristics as maturing within one month, as well as obligatory reserve.

(all amounts are expressed in thousands of BAM)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

31 December 2010	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets						
Cash and balances with banks	38,547	-	-	-	-	38,547
Obligatory reserves with the Central Bank	23,458	-	-	-	-	23,458
Placements with other banks	48,048	13,800	742	-	-	62,590
Available-for sale financial assets	57	-	-	-	-	57
Financial assets at fair value through profit and loss	487	-	-	-	-	487
Financing of customers	12,184	14,986	61,143	62,627	21,696	172,636
Income tax prepayments	153	-	-	-	-	153
Other assets	496	-	-	-	-	496
Deferred tax assets	-	-	-	-	25	25
Property and equipment	-	-	-	-	8,550	8,550
Intangible assets	-	-	-	-	115	115
Total assets	**123,430**	**28,786**	**61,885**	**62,627**	**30,386**	**307,114**
Liabilities and equity						
Due to banks	-	-	29,544	-	-	29,544
Due to customers	102,478	19,143	55,304	44,515	2,260	223,700
Borrowings	-	-	-	-	804	804
Other liabilities	2,620	-	-	-	-	2,620
Provisions for liabilities and charges	1,369	-	-	-	-	1,369
Share capital and reserves	-	-	-	-	49,077	49,077
Total liabilities and equity	**106,467**	**19,143**	**84,848**	**44,515**	**52,141**	**307,114**
Maturity gap	**16,963**	**9,643**	**(22,963)**	**18,112**	**(21,755)**	**-**

(all amounts are expressed in thousands of BAM)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

31 December 2009	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets						
Cash and balances with banks	59,399	-	-	-	-	59,399
Obligatory reserves with the Central Bank	15,973	-	-	-	-	15,973
Placements with other banks	3,999	3,999	6,996	-	-	14,994
Available-for-sale financial assets	56	-	-	-	-	56
Financial assets at fair value through profit or loss	467	-	-	-	-	467
Financing of customers	5,456	17,233	59,049	50,189	11,902	143,829
Income tax prepayments	151	-	-	-	-	151
Other assets	468	-	-	-	-	468
Deferred tax assets	-	-	-	-	32	32
Property and equipment	-	-	-	-	8,444	8,444
Intangible assets	-	-	-	-	1,770	1,770
Total assets	**85,969**	**21,232**	**66,045**	**50,189**	**22,148**	**245,583**
Liabilities and equity						
Due to banks	-	-	9,787	19,740	-	29,527
Due to customers	62,193	10,169	66,770	21,356	209	160,697
Borrowings	-	-	-	-	603	603
Other liabilities	4,852	-	-	-	-	4,852
Provisions for liabilities and charges	1,244	-	-	-	-	1,244
Share capital and reserves	-	-	-	-	48,660	48,660
Total liabilities and equity	**68,289**	**10,169**	**76,557**	**41,096**	**49,472**	**245,583**
Maturity gap	**17,680**	**11,063**	**(10,512)**	**9,093**	**(27,324)**	**-**

(all amounts are expressed in thousands of BAM)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Maturity of off-balance-sheet items

(a) Financing of customers commitments

The maturity of the contractual amounts of the Bank's off-balance-sheet financial instruments that commit it to extend credit to customers and other facilities are summarized in the table below.

(b) Financial guarantees and letters of credits

Financial guarantees and letters of credits are also included in the table below based on the earliest contractual maturity date.

(c) Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are summarized in the table below.

As at 31 December 2010	**No later than 1 year**	**1-5 year**	**Over 5 years**	**Total**
Financing of customers commitments	12,899	-	-	**12,899**
Financial guarantees and letter of credits	30,872	12,551	9	**43,432**
Operating lease commitments	569	1,887	72	**2,528**
Total	44,340	14,438	81	58,859
As at 31 December 2009				
Financing of customers commitments	15,422	-	-	**15,422**
Financial guarantees and letter of credits	33,582	10,314	9	**43,905**
Operating lease commitments	560	2,074	418	**3,052**
Total	49,564	12,388	427	62,379

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair values of financial assets and liabilities

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. Where available, fair value is based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing techniques as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, the calculated fair market estimates may not be realisable in a current sale of the financial instrument, in particular considering in view of the impact of the global financial crisis and lack of liquid market in Bosnia and Herzegovina.

Cash and cash equivalents

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

Financing of customers

As the Bank has a very limited portfolio of financing of customers with fixed rates and longer-term maturity, management considers that the fair value of financing of customers is not significantly different from their carrying value, prior to taking into account the effect of provisions at the rates specified by the Agency, and without taking into account expected future losses.

Customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the balance sheet date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationship with depositors is not taken into account in estimating fair values. As the majority of Bank's portfolio has short term maturity the management considers that the fair value of customer deposits is not significantly different from their carrying value.

Borrowings and bank deposits

The fair value of variable yield borrowings that regularly reprice, with no significant change in credit risk, generally approximates their carrying value. The fair value of borrowings at fixed rates is estimated using discounted cash flow analyses, based upon profit margins currently offered for loans with similar terms to borrowers of similar credit quality. Management considers that the fair value of borrowings at fixed profit margin is not significantly different from their carrying value.

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 regulator of the banking market in the local environment;
- 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.

Capital adequacy and the balance of capital are monitored regularly by the Asset and Liability Committee ("ALCO") and Bank's Management Board, based on the relevant internal acts and regulations prescribed by the Agency.

(all amounts are expressed in thousands of BAM)

The table below summarizes the composition of regulatory capital and the capital adequacy ratio of the Bank for the years ended 31 December 2010 prepared in accordance with Agency regulations.

	2010	2009
Bank's net capital according to Banking Agency regulations	53,513	51,046
Risk Weighted Assets and Equivalent	226,187	190,802
Weighted operational risk	13,345	10,487
Total risk weighted assets and operational risk	239,532	201,289
Capital adequacy ratio	22.3%	25.4%

The minimum capital adequacy ratio required by the regulations of the Agency is 12%.

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The Bank makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Bank's credit risk portfolio represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment losses on financing of customers

The Bank monitors the creditworthiness of its customers on an ongoing basis. Impairment allowances are determined based on the category in which the asset is classified.

In determining the overall level of impairment allowance required for financing of customers, management considers any delay in scheduled payments of profit margin and repayments of principal, the financial condition of the borrower and its capacity to service its obligations, quality of collateral, economic environment, and historic collection and past debt experience.

A significant proportion of the Bank's credit risk exposures represents amounts which were due to be repaid under original terms, but have been rescheduled, in certain cases with capitalized profit margin and grace periods, which makes it difficult to assess the ultimate recoverability of the rescheduled exposure and, in view of the uncertainty, increases the risk of ultimate irrecoverability.

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

There are also certain exposures where ultimate recoverability depends on the realisable value of the underlying collateral which was assessed at the time of initiation of the financing by chartered court surveyors. In view of the undeveloped local real estate market, the recent adverse economic environment as well as possible administrative and legal difficulties, there is uncertainty whether or not and in what value and timescale the Bank will be able to enforce its rights and repossess collateral.

Taxation

The Bank provides for tax liabilities in accordance with the tax laws of the Federation of Bosnia and Herzegovina. Tax returns are subject to the approval of the tax authorities who are entitled to carry out subsequent inspections of taxpayers' records. The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Bank may not coincide with that of the management. As a result, transactions may be challenged by tax authorities and the Bank may be assessed additional taxes, penalties and interest, which can be significant. In accordance with the Law on Tax Authority of the Federation of Bosnia and Herzegovina, tax liabilities are normally open to inspection by the Tax Authority for a period of five years from the origination of the liability.

Regulatory requirements

The Agency is entitled to carry out regulatory inspections of the Bank's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.

(all amounts are expressed in thousands of BAM)

6. NET INCOME FROM FINANCING AND INVESTMENTS

	2010	2009
Income from operations with other banks (Murabaha, Wakala)	1,958	2,111
Income from retail sector financing (Musharaka, Ijara)	4,397	3,904
Income from corporate sector financing (Musharaka)	8,903	7,488
Income from obligatory reserve	100	136
Income from financing and investments	15,358	13,639
Expenses from amounts due to retail customers (Wakala)	1,642	1,158
Expenses from amounts due to corporate customers (Wakala)	3,691	2,770
Expenses from amounts due to banks (Wakala)	746	1,111
Expenses from amounts due to customers and banks	(6,079)	(5,039)
Total	**9,279**	**8,600**

7. FEE AND COMMISSION INCOME

	2010	2009
Fees from payment transactions	1,408	1,030
Guarantees and letters of credit	921	904
Commission income for stock exchange trade	180	165
Fees from foreign exchange transactions	235	165
Fees from other banking services	2,580	1,963
Total	**5,324**	**4,227**

8. NET FINANCIAL GAIN / (LOSS)

	2010	2009
Foreign exchange gains	207	145
Losses on assets at fair value through profit or loss (Note 19)	(88)	(60)
Income from dividends	29	24
Total	**148**	**109**

9. OTHER OPERATING INCOME

	2010	2009
Grant income (note 27)	4,215	-
Other income	56	115
Total	**4,271**	**115**

10. PERSONNEL EXPENSES

	2010	2009
Salaries	3,271	2,997
Taxes and contributions related to salaries	2,025	1,857
Other employee expenses	1,047	917
Total	**6,343**	**5,771**

The average number of employees for the year ended 31 December 2010 and 2009 was 195 and 175, respectively.

Personnel expenses include BAM 1,096 thousand (2009: BAM 1,024 thousand) of defined pension contributions paid into the State pension plan. Contributions are calculated as percentage of the gross salary paid.

(all amounts are expressed in thousands of BAM)

11. OTHER OPERATING EXPENSES

	2010	2009
Office material and maintenance	556	639
Rent	585	531
Professional services	705	552
Telecommunications	412	357
Security	391	325
Marketing and advertising	215	256
Supervisory board and shareholders meetings	156	143
Energy, post and communications	130	125
Travel and accommodation	16	14
Write-off of software	1,635	-
Other general and administrative expenses	1,249	698
Total	**6,050**	**3,640**

12. NET IMPAIRMENT LOSSES AND PROVISIONS

	2010	2009
Financing of customers (Note 20)	4,554	1,592
Placements with banks (Note 17)	331	143
Other assets (Note 21)	19	17
Provisions for contingent liabilities and commitments (Note 28)	110	184
Total	**5,014**	**1,936**

13. AMOUNTS COLLECTED FROM PREVIOUSLYWRITTEN-OFF RECEIVABLES

	2010	2009
Income from collection of written-off customer financing (principal amounts)	226	83
Income from collection of written-off profit margin receivable	141	154
Income from collection of written-off other receivables	20	1
Total	**387**	**238**

14. INCOME TAX

Income tax recognised in the income statement includes deferred tax only.

	2010	2009
Current tax	-	-
Deferred tax (expense)/benefit	(7)	32
Total income tax (expense)/benefit	(7)	32

The official tax rate within the country is 10% (2009: 10%).

(all amounts are expressed in thousands of BAM)

Reconciliation of the accounting profit and income tax expense

	2010	2009
Profit before tax	424	428
Tax effects of items which are not deductible:		
- non-taxable income	(86)	(7)
- non-deductible expenses	344	1,428
Income tax profit for the year	682	1,849
Tax losses carried forward	(682)	(1,849)
Other unreconciled movements	(7)	32
Income tax (charge)/benefit for the year	(7)	32

In accordance with the Law on Corporate Profit Tax, tax losses can be carried forward for relief against profit of future accounting periods, but for not longer than 5 years. For reasons of prudence, the Bank does not recognize deferred tax assets on tax losses carried forward.

Tax losses can be carried forward as follows:

	2010	2009
Up to 5 years	-	-
Up to 4 years	-	-
Up to 3 years	-	-
Up to 2 years	-	2,731
Up to 1 year	2,049	1,245
	2,049	**3,976**

15. CASH AND BALANCES WITH BANKS

	2010	2009
Current accounts with the Central Bank	15,245	48,218
Cash on hand	6,126	5,798
Current accounts with other banks	17,176	5,379
Cheques in foreign currency	-	4
Total	**38,547**	**59,399**

16. OBLIGATORY RESERVE WITH THE CENTRAL BANK

The obligatory reserve represents amounts required to be deposited with the Central Bank BH ("Central Bank"). Obligatory reserve is calculated on the basis of deposits and borrowings taken regardless of the currency the funds are denominated in.

The basis for calculation excludes:
- borrowings taken from foreign entities;
- funds from government aimed at development projects.

The obligatory reserve requirement represents:
- 14% of deposits and borrowings with maturity of up to one year (short-term deposits and borrowings)
- 7% of deposits and borrowings with maturity over one year (long-term deposits and borrowings)

Profit margin is earned as follows:
- for the obligatory reserve the rate is determined on the basis of average market rates realised by the Central Bank on overnight deposits market in the same period (0.5% until 30 June 2010 and overnight deposits rate from 1 July 2010);
- for deposited funds exceeding the minimum requirement the rate is based on average rates earned by Central Bank on funds invested up to one month.

(all amounts are expressed in thousands of BAM)

17. PLACEMENTS WITH BANKS

	2010	2009
Placements with banks - gross	63,146	15,219
Provisions for impairment	(556)	(225)
Total	**62,590**	**14,994**

Placements with other banks include:

- cash deposit in the amount of BAM 283 thousand (AED 600 thousand) placed with Dubai Islamic Bank as security for a guarantee issued by that bank on behalf of a customer of the Bank.
- cash deposit with Volksbank ad Banja Luka in the amount of BAM 74 thousand (BAM 68 thousand as at 31 December 2009) as collateral for the Bank's liabilities to Visa in respect of credit card operations.

As of 31 December 2010, profit rates on placements in EUR were 0.83% - 7% and (31 December 2009 – profit rates on placements in EUR were 0.65% - 6.5% p.a.).

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

	2010	2009
Balance as at 1 January	225	82
Increase in provisions, net (Note 12)	331	143
Balance as at 31 December	**556**	**225**

18. ASSETS AVAILABLE FOR SALE

	2010	2009
Equity investments in related parties	10	10
Other equity investments	47	46
Total	**57**	**56**

Investments are all in unlisted equity instruments as follows:

Company	Activity	% of ownership	Country
Islamic International Rating Agency	Rating Agency for Islamic Institutions	1.438	Kingdom of Bahrain
Registry of Securities of Federation of Bosnia and Herzegovina	Registration, safekeeping and maintenance of data on securities	0.687	Bosnia and Herzegovina
BBI Leasing and Real Estate d.o.o. Sarajevo	Leasing	0.03	Bosnia and Herzegovina

(all amounts are expressed in thousands of BAM)

19. FAIR VALUE INVESTMENTS THROUGH PROFIT AND LOSS

	2010	2009
Listed equity securities		
Al Salam Bank – Bahrain B.S.C.	129	155
JP Elektroprivreda HZ HB d.d. Mostar	58	65
BH Telecom d.d. Sarajevo	93	50
Bosnalijek d.d. Sarajevo	24	28
Ingram d.o.o. Srebrenik	23	26
Energoinvest d.d. Sarajevo	25	21
Klas d.d. Sarajevo	18	20
GP ŽGP Sarajevo	14	17
JP Elektroprivreda BH d.d. Sarajevo	51	17
Hidrogradnja d.d. Sarajevo	7	13
Vranica d.d. Sarajevo	2	4
Investment funds quoted over the counter		
MF Global Open Fund Sarajevo	23	25
Listed investment funds		
IF BIG Investiciona Grupa	11	14
IF Prevent Invest Sarajevo	5	7
IF MI Group Sarajevo	4	5
Total	**487**	**467**

The Bank incurred an unrealised net fair value loss on this portfolio of BAM 88 thousand (2009: net loss of BAM 60 thousand).

(all amounts are expressed in thousands of BAM)

20. FINANCING OF CUSTOMERS

	2010	2009
Corporate		
- short term	56,640	53,212
- long term	66,853	48,847
	123,493	102,059
Retail		
- short term	8,026	6,697
- long term	48,642	39,225
	56,668	45,922
Total gross financing of customers	**180,161**	**147,981**
Impairment allowance	(7,525)	(4,152)
Net financing of customers	**172,636**	**143,829**

Financing of customers is mostly given to customers in Bosnia and Herzegovina.

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

	2010	2009
Balance as at 1 January	4,152	2,999
Increase in provision, net (Note 12)	4,554	1,592
Write-offs	(1,181)	(439)
Balance as at 31 December	**7,525**	**4,152**

Profit rates for financing of customers given as at 31 December 2010 and 2009 are summarized as follows:

	2010		2009	
	BAM '000	Annual profit rate	BAM '000	Annual profit rate
Companies	123,493	2.96% - 14.67%	102,059	3% - 14.72%
Individuals	56,668	3% - 15%	45,922	5% - 15%
Total	**180,161**		**147,981**	

21. OTHER ASSETS

	2010	2009
Receivables from other banks in relation to card activities	52	183
Fees receivable	279	176
Prepaid expenses	91	101
Material, tools and consumables	28	50
Receivables from State bodies	30	14
Other assets	90	47
Subtotal	570	571
Provision for impairment	(74)	(103)
Total	**496**	**468**

(all amounts are expressed in thousands of BAM)

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

	2010	2009
Balance as at 1 January	103	87
Increase of provisions, net (Note 12)	19	17
Write-offs	(48)	(1)
Balance as at 31 December	**74**	**103**

(all amounts are expressed in thousands of BAM)

22. PROPERTY AND EQUIPMENT

	Land and buildings	Computers	Furniture and equipment	Assets in the course of construction	Leasehold improvement	Total
Cost						
1 January 2009	5,469	709	2,258	462	1,123	10,021
Additions	-	-	-	1,090	-	1,090
Transfers	24	303	711	(1,038)	-	-
Write-offs	-	(168)	(158)	-	(436)	(762)
31 December 2009	5,493	844	2,811	514	687	10,349
Depreciation						
1 January 2009	176	303	856	-	580	1,915
Charge for the year	72	162	343	-	175	752
Write-offs	-	(168)	(158)	-	(436)	(762)
31 December 2009	248	297	1,041	-	319	1,905
Net book value 31 December 2009	5,245	547	1,770	514	368	8,444
Cost						
31 December 2009	5,493	844	2,811	514	687	10,349
Additions	-	-	-	890	-	890
Transfers	48	446	260	(793)	39	-

(all amounts are expressed in thousands of BAM)

	Land and buildings	Computers	Furniture and equipment	Assets in the course of construction	Leasehold improvement	Total
Cost						
Write-offs	-	(5)	(88)	-	(16)	(109)
31 December 2010	5,541	1,285	2,983	611	710	11,130
Depreciation						
31 December 2009	248	297	1,041	-	319	1,905
Charge for the year	71	187	390	-	136	784
Write-offs	-	(5)	(88)	-	(16)	(109)
31 December 2010	**319**	**479**	**1,343**	**-**	**439**	**2,580**
Net book value 31 December 2010	**5,222**	**806**	**1,640**	**611**	**271**	**8,550**

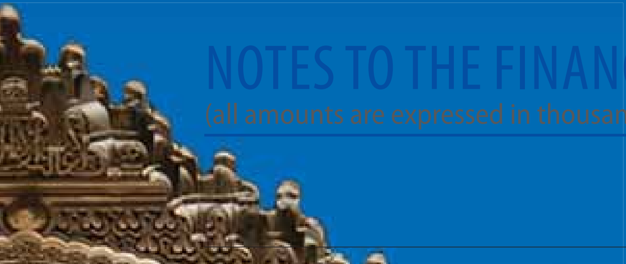
Assets in the course of construction represent computers and other equipment not yet put into use.

(all amounts are expressed in thousands of BAM)

23. INTANGIBLE ASSETS

	Assets in the course of construction	Software and licences	Total
Cost			
1 January 2009	1,527	287	1,814
Additions	138	-	138
Transfers	(38)	38	-
Write-offs	-	(46)	(46)
31 December 2009	1,627	279	1,906
Amortisation			
1 January 2009	-	120	120
Charge for the year	-	62	62
Disposals	-	(46)	(46)
31 December 2009	-	136	136
Net book value 31 December 2009	1,627	143	1,770
Cost			
31 December 2009	1,627	279	1,906
Additions	38	-	38
Transfers	(30)	30	-
Write-offs	(1,635)	(2)	(1,637)

(all amounts are expressed in thousands of BAM)



	Assets in the course of construction	Software and licences	Total
Cost			
31 December 2010	-	307	307
Amortisation			
31 December 2009	-	136	136
Charge for the year	-	58	58
Write-offs	-	(2)	(2)
31 December 2010	-	192	192
Net book value 31 December 2010	-	115	115

Most of construction in progress as of 31 December 2009 relates to the acquisition and installation of new licensed software, purchased from Mysis International Banking Systems Limited, England in 2006. In 2010, management made a decision to write-off the total carrying value of software since it could not be implemented.

(all amounts are expressed in thousands of BAM)

24. DUE TO CUSTOMERS

	2010	2009
Deposits of corporate clients:		
Current	71,906	39,942
Term	87,161	72,194
Total deposits of companies	**159,067**	**112,136**
Deposits of retail clients:		
Current	11,200	8,719
Term	53,433	39,842
Total deposits of individuals	64,633	48,561
Total	**223,700**	**160,697**

Term deposit average profit rates during 2010 and 2009 were 4.55% and 4.54%, respectively. Accrued profit margin expense as of 31 December 2010 and 2009 amounted to BAM 815 thousand and KM 699 thousand, respectively.

25. DUE TO BANKS

	2010	2009
Islamic Development Bank, Saudi Arabia	19,747	19,740
Abu Dhabi Islamic Bank, United Arab Emirates	9,797	9,787
Total	**29,544**	**29,527**

Islamic Development Bank, Jeddah, Saudi Arabia deposited an amount of EUR 10 million. The deposit carries an annual profit rate of EURIBOR +1% and is due on 2 April 2011. Accrued profit margin expense as of 31 December 2010 and 2009 amounted BAM 188 thousand and BAM 182 thousand, respectively. A Master Wakala Agreement was signed between the Bank and Abu Dhabi Islamic Bank on 1 February 2005, in the amount of EUR 5 million. The final maturity date of the deposits is 15 June 2011 with profit rate of three months EURIBOR +2.9% p.a. Accrued profit margin expenses as of 31 December 2010 and 2009 amounted BAM 18 thousand and BAM 7 thousand, respectively.

26. BORROWINGS

	2010	2009
Ministry of Finance (IFAD)	804	603
Total	**804**	**603**

In March 2008 the Bank signed contract with the Federal Ministry of Finance, related to funds provided by International Fund for Agricultural Development (IFAD), whereby the Bank uses the funds to finance customers. Repayment period is 12 years (bullet repayment) with an grace period of 2 years before profit margin is charged, at 2% per annum, fixed.

(all amounts are expressed in thousands of BAM)

27. OTHER LIABILITIES

	2010	2009
Deferred income – Islamic Development Bank – Trust fund	-	2,787
Liabilities for undistributed inflows	558	575
Payables to shareholders of liquidated ICB Bank, FBiH	352	355
Liabilities to vendors	284	333
Accrued expenses	254	303
Liabilities to charities	213	143
Difference in on-lending funds – undistributed funds (Note 31)	55	33
Deferred fee income	114	-
Other liabilities	790	323
Total	**2,620**	**4,852**

In 2007 the Bank signed an agreement with Islamic Development Bank, Saudi Arabia ("IDB") for the establishment of a trust fund for financing Micro and Small Projects for the sustainable return of refugees in Bosnia and Herzegovina. According to this agreement, IDB Bank paid funds in the total amount of USD 3 million (BAM 4,215 thousand) which was paid in three instalments, the last one being paid at the beginning of 2010. In 2010, IDB made a decision to provide those funds as an unconditional donation to the Bank and thus the Bank recognised the full amount as other income, upon instruction from the Agency.

(all amounts are expressed in thousands of BAM)

28. PROVISIONS FOR LIABILITIES AND CHARGES

	2010	2009
Provisions for off-balance-sheet items	1,259	1,164
Provisions for severance payments and unused holiday	110	80
Total	**1,369**	**1,244**

Movement in provisions for liabilities and charges:

	Total	Provisions for off-balance-sheet items	Provisions for severance payments and unused holidays
	BAM'000	BAM'000	BAM '000
Balance as at 1 January 2009	1,049	980	69
Net charge to income statement	195	184	11
Balance as at 31 December 2009	**1,244**	**1,164**	**80**
Net charge to income statement	140	110	30
Write-offs	(15)	(15)	
Balance as at 31 December 2010	**1,369**	**1,259**	**110**

Impairment losses for off-balance sheet exposure are recognized through net impairment losses and provisions in the income statement (note 12). Movements on other provisions are included in other operating expenses.

(all amounts are expressed in thousands of BAM)

29. SHARE CAPITAL

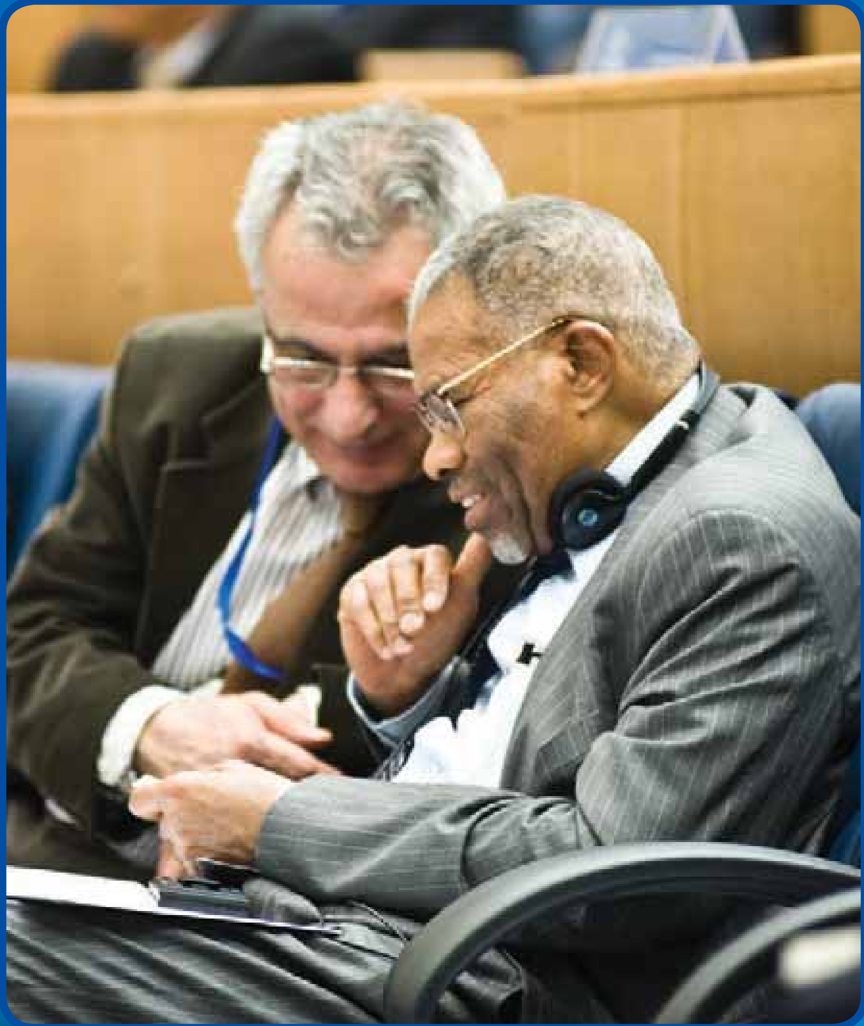
The Bank's ownership structure was as follows:

	31 December 2010			31 December 2009		
Shareholders	Number of shares	Share capital BAM '000	%	Number of shares	Share capital BAM '000	%
Islamic Development Bank, Saudi Arabia	269,927	22,755	45.46	269,927	22,755	45.46
Abu Dhabi Islamic Bank, United Arab Emirates	161,948	13,652	27.27	161,948	13,652	27.27
Dubai Islamic Bank, United Arab Emirates	161,948	13,652	27.27	161,948	13,652	27.27
Total	**593,823**	**50,059**	**100.00**	**593,823**	**50,059**	**100.00**

30. COMMITMENTS AND CONTINGENCIES

	2010	2009
Performance guarantees	32,049	31,471
Payment guarantees	7,011	8,537
Unused credit lines	12,899	15,422
Letters of credit	4,372	3,897
Total	56,331	59,327

(all amounts are expressed in thousands of BAM)



31. ON-LENDING ACTIVITES

Funds managed by the Bank on behalf of third parties are not assets of the Bank, and therefore, are not included in its balance sheet.

	2010	2009
Liabilities		
Liabilities to Government – Ministry for War Veterans	2,796	3,030
Al Mactoum Foundation	390	395
Total	**3,186**	**3,425**
Assets		
Retail – placed funds	3,131	3,392
Total	**3,131**	**3,392**
Difference in on lending funds (Note 27)	**55**	**33**

The Bank does not bear the risk for these funds and charges a fee of 1% for its services.

32. RELATED-PARTY TRANSACTIONS

The Bank considers that it has an immediate related party relationship with its key shareholders and their subsidiaries, its associates, members of the Supervisory Board, members of the Management Board and other senior management of the Bank (together, "key management"), close family members of the key management and legal entities where key management and/or their close family members have control or significant influence.

(all amounts are expressed in thousands of BAM)

Transactions with related parties are part of the Bank's regular operations.

Assets and liabilities with related entities are as follows:

	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Islamic Development Bank, Saudi Arabia	-	19,747	-	19,741
Dubai Islamic Bank, UAE	-	-	-	-
Abu Dhabi Islamic Bank, UAE	-	9,797	-	9,786
BBI Leasing and Real Estate d.o.o.	1,920	5,927	2,303	3,879
Total	1,920	35,471	2,303	33,406

	2010		2009	
	Income	Expenditure	Income	Expenditure
Islamic Development Bank, Saudi Arabia	-	472	-	852
Dubai Islamic Bank, UAE	6	-	33	-
Abu Dhabi Islamic Bank, UAE	-	274	35	259
BBI Leasing and Real Estate d.o.o.	65	287	163	395
Total	71	1,033	231	1,506

(all amounts are expressed in thousands of BAM)

Director's and executives' remuneration

The remuneration of management board members during the year were as follows:

	2010	2009
Salaries	408	375
Contributions and taxes paid to retirement benefit schemes	249	225
Discretionary bonuses	22	49
Total	**679**	**649**

The remuneration of the Supervisory Board amounted to BAM 74 thousand (2009: BAM 66 thousand), consisting of the gross amount of fees payable.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Novo Sarajevo - Džemala Bijedića 2, Sarajevo, tel. 033 712-586
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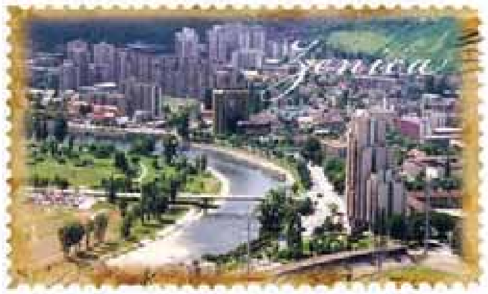

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