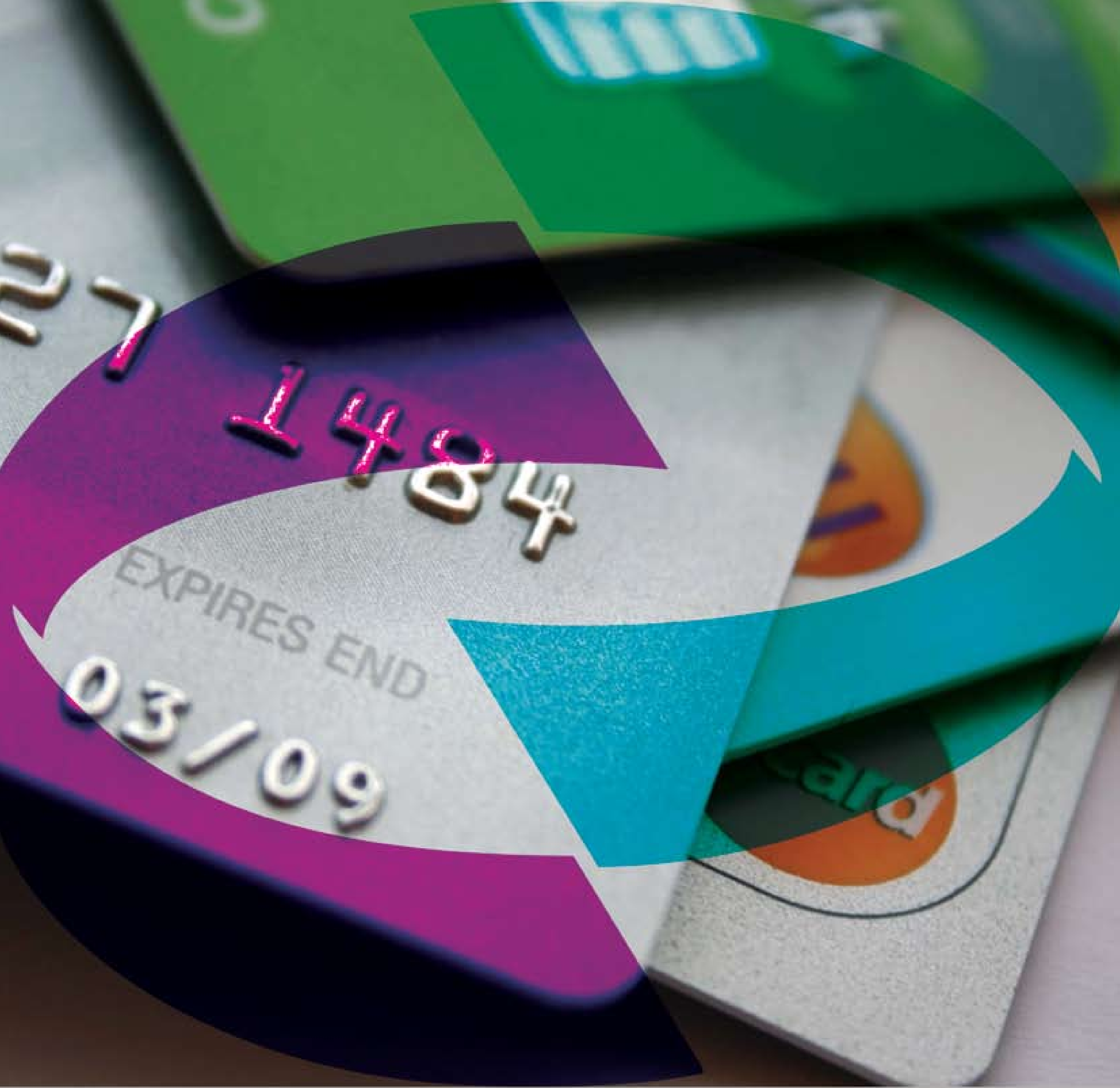
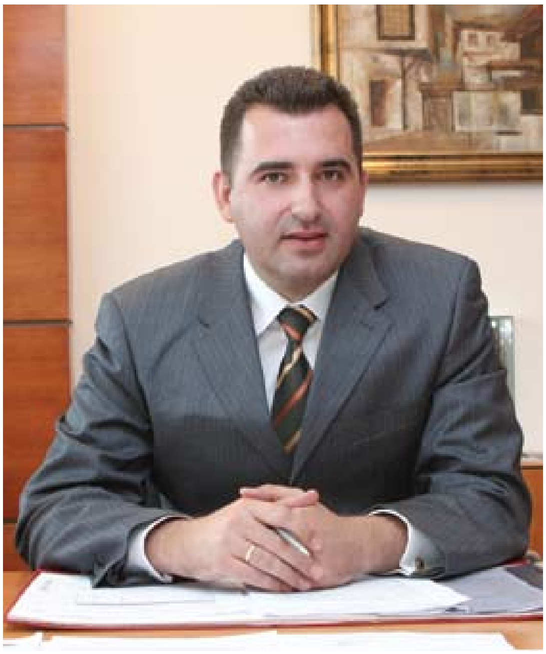


Annual Report 2007

UPI BANKA d.d.
SARAJEVO

Bank of INTESA SANPAOLO

CONTENT



For UPI Banka the reporting year has been a very important one and marked by two major events. The bank merged successfully with another local bank and simultaneously harmonized and upgraded its business operations in accordance with Intesa Sanpaolo Group Standards.

The process of integration of another Bank in the ownership of Intesa Sanpaolo Group with UPI Banka started with my appointment as CEO. On August 01, 2007 LT Gospodarska banka d.d. Sarajevo was merged into UPI Banka, which resulted in an increase of our loan portfolio by more then 55%, which is significantly bigger in percentage terms then the one achieved in the same period by our main competitors.

The merger has not been an easy and simple process, since the two banks were following different procedures, had different clients' structure and products 'palette', geographical presence as well as different employees' structure. The successful completion of this process was significantly supported by the colleagues from Intesa Sanpaolo Group that, together with us, worked on each detail and "fitted in" even the slightest pieces of mosaic, in order to have an integrated bank ready to provide good-quality services and more competitive products. I consider this merger successful and the results of such strengthening of the Bank's position in the market are already visible.

At the same time, the Bank went through a huge process of restructuring which involved every sector of the organization where, among other things, entire departments were established ex-novo, almost all branch managers were replaced, employees' structure was changed, manner of processes' management was modernized and new business models were applied. At the same time, all this was just a starting point since streamlining of process is now further pursued with the aim to provide a more flexible structure, opened to changes and to improve understanding of clients needs.

All the above stated, I am proud to say that all goals originally planned for the year were achieved within the given deadlines. The Bank also increased significantly its activities in the BiH market in comparison to the previous year. In particular, the results achieved were higher than expected and substantial investments were made in the expansion and modernization of the business network.

The profit achieved by the Bank in 2007 is above the original budget of 1 mil KM and I consider it as satisfactory especially in consideration of numerous changes undertaken by the Bank. A very significant growth was registered in all the most important indicators. Retail Deposits amount to 248.7 mil KM, which is a growth of 24,5% compared to 2006, while Corporate Deposits reach 410.7 mil KM (+ 24,7% vs. previous year). Moreover, the Retail portfolio increased by 90,3%, to 305.6 mil KM, while Corporate loans raised to 266.0 mil KM, (+ 27,7%). Total Assets in 2007 stand at 951.6 mil KM, with a substantial growth of 88,6% in respect to 2006.

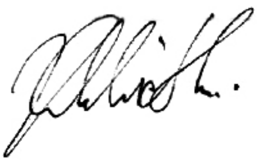
I would especially stress the fact that being a member of one of the largest and leading banking groups in Europe, gives us a new quality and stability but also implies for us newer and bigger responsibilities.

Our belonging to the Intesa Sanpaolo Group and the upcoming re-branding of our bank will give us a competitive advantage with regard to the regional presence in SEE. At the same time, our goal will be to meet the clients’ expectations at our best, offering them a wider range of products. Besides the stronger image in the BiH market and in the region, this enables us to improve our business operations, apply the international standards faster and in a more efficient manner and use ready-made solutions that have already proved to be successful within the Group. Cooperation and exchange of experiences with other Group members is of a significant importance for our successful work.

Taking into consideration all the above stated we expect that the planned goals of our Bank will be successfully met and that its share in the BiH market will increase too in the next year.

CEO

Almir Krkalić



UPI Banka d.d. Sarajevo

UPI Banka d.d. Sarajevo
Financial statements for the year
ended 31 December 2007
prepared in accordance with
International Financial Reporting
Standards as modified by the regulatory
requirements of the Banking Agency of
Federation of Bosnia and Herzegovina
and Independent auditors' report

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

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

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

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

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

Signed on behalf of the Management Board

Almir Krkalić, Director
UPI Banka d.d. Sarajevo
Obala Kulina bana 9a
71000 Sarajevo
Bosnia and Herzegovina
25 January 2008

To the shareholders of UPI Banka d.d. Sarajevo:

We have audited the accompanying financial statements of UPI Banka d.d. Sarajevo (the "Bank") set out on pages 8 to 53, which comprise of the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position UPI Banka d.d. Sarajevo as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as modified by the regulatory requirements of the Banking Agency of Federation of Bosnia and Herzegovina.

Deloitte

Deloitte d.o.o.
Sarajevo, Bosnia and Herzegovina
25 January 2008

(all amounts are expressed in thousands of KM)

	Notes	2007.	2006.
Interest income	6	42,958	28,044
Interest expense	7	(14,316)	(8,778)
Net interest income		**28,642**	**19,266**
Fee and commission income	8	9,238	6,534
Fee and commission expense	9	(2,699)	(1,853)
Net fee and commission income		**6,539**	**4,681**
Net trading income	10	321	330
Other operating income	11	794	496
Operating income		**1,115**	**826**
Administrative expenses	13	(21,977)	(15,367)
Depreciation of tangible fixed assets	23	(1,924)	(1,087)
Operating Expense		**(23,901)**	**(16,454)**
Profit before IMPAIRMENT LOSSES, PROVISIONS AND INCOME TAX		**12,395**	**8,319**
Impairment losses and provisions	14	(13,813)	(10,320)
Collected write-offs	12	3,023	2,784
PROFIT BEFORE INCOME TAX		**1,605**	**783**
Income tax	15	(77)	(32)
NET PROFIT FOR THE YEAR		**1,528**	**751**
Earnings per share (KM)	16	**5.71**	**3.28**

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

(all amounts are expressed in thousands of KM)

	Notes	31 December 2007	31 December 2006
ASSETS			
Cash and cash equivalents	17	154,909	97,517
Obligatory reserve with the Central Bank	18	132,022	69,744
Placements with other banks	19	90,088	68,339
Loans and receivables	20	540,349	248,112
Assets available for sale	21	1,259	1,271
Other assets	22	8,318	4,506
Property, plant and equipment	23	24,695	14,937
TOTAL ASSETS		**951,640**	**504,426**
LIABILITIES			
Due to banks and other institutions	24	183,764	61,358
Subordinated debt	25	16,733	1,890
Due to customers	26	659,446	396,827
Provisions for contingent liabilities and commitments	30	3,027	1,345
Other liabilities	27	5,860	3,047
Other provisions	28	2,609	2,967
TOTAL LIABILITIES		**871,439**	**467,434**
SHAREHOLDERS' EQUITY			
Share capital		37,145	22,900
Reserves and retained earnings		43,056	14,092
TOTAL SHAREHOLDER'S EQUITY		**80,201**	**36,992**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**951,640**	**504,426**
FINANCIAL COMMITMENTS AND CONTIN-GENCIES	29	111,844	68,095

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

Signed on behalf of UPI Banka d.d. Sarajevo on 25 January 2008:

Director	Executive Director of Finance
Almir Krkalić	Livio Mannoni

	2007	2006
Operating Activities		
Net Income	1,528	751
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,924	1,087
Impairment losses and provisions	13,813	10,320
Changes in other provisions, net	(356)	2,764
(Gain) / loss sale or disposal of property, plant and equipment	(61)	28
Changes in operating assets and liabilities:		
Net (increase) in due from Central Bank	(62,278)	(10,939)
Net (increase) / decrease in placements with other banks, before impairment losses	(21,588)	31,010
Net (increase) in loans and receivables, before impairment losses	(186,182)	(43,666)
Net decrease / (increase) in other assets, before impairment losses	52	(1,833)
Net increase / (decrease) due to banks	25,355	18,555
Net increase in demand and term deposits	110,095	42,956
Net increase in other liabilities	(1,036)	763
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	**(118,734)**	**51,796**
Investing Activities		
Net increase in assets available for sale, before impairment losses	-	(28)
Net purchases of property and equipment	(7,187)	(2,990)
Proceeds from sale of property, plant and equipment	315	154
Cash brought from LT Gospodarska banka d.d. Sarajevo	57,150	-
NET CASH USED IN INVESTING ACTIVITIES	**50,278**	**(2,864)**
Financing Activities		
Net proceeds from borrowings	86,007	(292)
Net proceeds from subordinated debt	14,843	(161)
Paid in capital	5,208	-
Increase in share premium	19,791	-
Dividends paid	(1)	(1)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**125,848**	**(454)**
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS	**57,392**	**48,478**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**97,517**	**49,039**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**154,909**	**97,517**

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

(all amounts are expressed in thousands of KM)

	Share capital	Treasury shares	Share Premium	Fair Value reserves	Retained earnings	Total
Balance as at 31 December 2005 Restated	**22,900**	**-**	**-**	**115**	**13,226**	**36,241**
Changes in equity for 2006						
Profit for the year	-	-	-	-	751	751
Balance as at 31 December 2006	**22,900**	**-**	**-**	**115**	**13,977**	**36,992**
Changes in equity for 2007						
Merger with LT Gospodarska Banka d.d. Sarajevo (Note 2)	9,039	-	8,619	-	(965)	16,693
Purchase/Sale of treasury shares	-	(2)	(9)	-	-	(11)
Increase in share capital	5,208	-	19,791	-	-	24,999
Profit for the year	-	-	-	-	1,528	1,528
Balance as at 31 December 2007	**37,147**	**(2)**	**28,401**	**115**	**14,540**	**80,201**

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

(all amounts are expressed in thousands of KM)

1. GENERAL

History and incorporation

UPI Banka d.d. Sarajevo, Obala Kulina Bana 9a (the "Bank") is registered in Cantonal Court in Sarajevo on 20 October 2000.

The UPI Bank was established in 1972 as an internal bank of the corporate system of the Udružena poljoprivreda, prehrambena industrija i promet (Associated Agriculture and Food Industries and Sales), aimed at supporting the operations of these sectors, which at the time employed more than 35,000 workers. Since 1990, a new phase is coming in the development of the UPI Bank, when it was registered as a shareholding company and it is in a majority state ownership (92 %). The Bank starts with expansion of the network of corporate clients, focusing on the sector of small and medium entrepreneurship. As early as from 2000, through the emission of shares, the Bank was fully transferred into the hand of private capital.

On 31. July 2007 LT Gospodarska banka d.d. Sarajevo (the "LTG Bank") merged into the Bank, with the effect of the LTG Bank cancellation (without initiation of liquidation process), while the Bank became its legal successor. The effects of this transaction on these financial statements are presented in Note 2.

Principal activities of the Bank

The Bank's main operations are as follows:

1. accepting deposits from the public and placing of deposits,
2. providing current and term deposit accounts,
3. granting short- and long-term loans and guarantees to corporate customers, private individuals, local municipalities and other credit institutions dealing with finance lease and foreign exchange transactions,
4. money market activities,
5. performing local and international payments,
6. foreign currency exchange and other banking-related activities,
7. providing banking services through an extensive branch network in the Bosnia and Herzegovina

Supervisory Board

Giancarlo Miranda	Chairman
Ivan Krolo	Vice-Chairman
Ezio Salvai	Member
Massimo Malagoli	Member
Roberto Marzanati	Member
Adriano Arietti	Member until 23.11.2007
Paolo Baessato	Member until 23.11.2007
Massimo Pierdicchi	Member until 23.11.2007

(all amounts are expressed in thousands of KM)

1. GENERAL (CONTINUED)

Management Board

Almir Krkalić	Acting Director until 04.06.2007 Director from 05.06.2007
Livio Mannoni	Executive Director of Finance
Igor Bilandžija	Executive Director of Risk Management
Neven Horvat	Executive Director of IT and Operations: from 05.06.2007
Branko Ekert	Executive Director of HR and Support Services: until 04.06.2007
Zlata Mušić	Executive Director of Business Banking: until 04.06.2007
Alma Škapur	Executive Director of Treasury and Transaction Banking: until 04.06.2007
Nedim Lulo	Executive Director of Retail: until 27.04.2007

Audit Committee

Gianpiero Trevisan	Chairman from 22.10.2007
Antonietta Guidali	Chairman until 27.07.2007
Maria Rosa Bonatti	Member
Armando Sala	Member from 27.07.2007.
Alen Galavić	Member
Ivanka Petrović	Member

Chief Internal Auditor - Mediha Ćatović

The shareholding structure is as follows:

	31 December 2007			31 December 2006		
Shareholders	**No. of shares**	**Amount KM '000**	**%**	**No. of shares**	**Amount KM '000**	**%**
Intesa Sanpaolo Holding International S.A.	216,236	21,624	58.22	185,909	18,591	81.18
Privredna banka Zagreb d.d. Zagreb	70,382	7,038	18.95	-	-	-
European Bank for Reconstruction and Development	26,635	2,664	7.17	22,900	2,290	10.00
Other	58,215	5,821	15.66	20,191	2,019	8.82
Total	**371,468**	**37,147**	**100.00**	**229,000**	**22,900**	**100.00**

In February 2006, Intesa Sanpaolo Holding International S.A. took over the major share package of the UPI Banka d.d. Sarajevo, and became the major owner of UPI Bank shares.

UPI Bank shareholders adopted the Decision on Increasing Share Capital for the amount of KM 5,208 thousand at the General Shareholders' Meeting, held on 23 November 2007 in Sarajevo. The increase of capital, after the FBiH Securities Commission issued a final approval, is executed through a new issue of ordinary (common) shares.

(all amounts are expressed in thousands of KM)

2. MERGER OF LT GOSPODARSKA BANKA D.D. INTO UPI BANKA D.D.

Introduction

Effective from 1 August 2007, based on decisions of General Assemblies of LT Gospodarska banka d.d. Sarajevo (the LTG) and UPI banka d.d. Sarajevo (the Bank) the LTG and the Bank merged. Through the transaction the LTG ceased to exist and it transferred all the assets, liabilities, equity, commitments and contingent liabilities to the Bank. Effective 1 August 2007 the LTG has been deregistered from the Trade Register with the Court of Bosnia and Herzegovina. The Bank became the legal successor of the LTG.

Banks participating in the merger procedure were as follows:

- **LT Gospodarska banka d.d. Sarajevo** – the merged bank (Cantonal Court of Sarajevo No. UF/I –256/03, registration folio number I – 124039).
  Legal representative of the bank as at 31 December 2006 and the date of merger is director Drago Bilandžija.
- **UPI banka d.d. Sarajevo** – the receiving bank (Employment Tribunal of Sarajevo No. U/I-3816/90, registration folio number 1-4639, i.e. Cantonal Court of Sarajevo number UF/I-4091/00, registration folio number 1-4639).

Legal representative of the bank as at 31 December 2006 was director Mirsad Letić, and since 1 January 2007 director Almir Krkalić.

The position of shareholders of both banks changed after the merger in respect to their share in the share capital of UPI banka d.d. Sarajevo, based on the determined share swap ratio:

Ownership structure of the LT Gospodarska banka d.d before the merger	**%**	**Ownership structure of UPI banka d.d. before the merger**	**%**
Privredna banka Zagreb d.d. (PBZ)	66.99	Intesa Sanpaolo Holding International SA	81.18
Minority shareholders	33.01	European Bank for Restructuring and Development (EBRD)	10.00
		Minority shareholders	8.82
TOTAL:	**100.00**	**TOTAL:**	**100.00**

Ownership structure of UPI banka d.d. - after the merger	**Number of shares**	**New structure %**
Intesa Sanpaolo Holding International SA	185,909	58.22 %
Privredna banka Zagreb d.d.(PBZ)	60,511	18.95 %
Total Intesa Sanpaolo group	*246,420*	*77.17 %*
European Bank for Restructuring and evelopment (EBRD)	22,900	7.17 %
Minority shareholders	50,066	15.66 %
TOTAL:	***319,386***	***100.00 %***

(all amounts are expressed in thousands of KM)

2. MERGER OF LT GOSPODARSKA BANKA D.D. INTO UPI BANKA D.D. (CONTINUED)

Before the merger

	No. of shares	Share capital
LT Gospodarska banka d.d. Sarajevo	210,200	17,657
UPI banka d.d. Sarajevo	229,000	22,900

Share capital of the LTG bank as at 31 July 2007 amounted to KM 17,657 thousand in cash, for which amount the LTG bank issued:

- 210,060 common (ordinary) shares, class ES,
- 140 priority (preference) shares, class A.

Nominal value of one share amounted to KM 84.00.

Share capital of UPI bank as at 31 July 2007 amounted to KM 22,900,000.00 in cash, for which amount UPI bank issued 229,000 ordinary shares.

Nominal value of one share amounts to KM 100.00.

Selection of valuation method and share exchange ratio for the exchange of the shares of the LTG for the shares of UPI banka d.d.

Management Boards of both banks decided to apply the method of discounted cash flows (DCF), as basis for determination of the share swap. In determining the share swap ratio for the exchange of the shares of the LTG for the shares of the Bank, Management Boards of both banks were guided by the principle that the swap should be based on the fair value of both shares, which requires the application of a method that measures their fair value with the most precision.

The fair value of both shares is based on their fair value as of December 2006.

Asset valuations have been carried out on an unconsolidated basis, excluding all effects of transactions between the banks. The value of unconsolidated investments has been valued independently and added to the results of DCF valuation and the assessment of fair value of net assets.

During the transaction existing shares of the LTG were cancelled and the Bank issued 90,326 ordinary shares and 60 priority shares to the shareholders of the LTG using determined share exchange ratio of 1 share of the LTG for 0.43 shares of UPI banka d.d. Nominal value of one share of the Bank amounts to KM 100.00.

Residual value of KM 8,619 thousand has been recognized in the equity of UPI banka d.d. as share premium.

For the purpose of preparing the opening balance sheet as at 1 August 2007 both banks recognized net result, net of transactions between participating entities for the period ended 31 July 2007 as retained earnings.

2. MERGER OF LT GOSPODARSKA BANKA D.D. INTO UPI BANKA D.D. (CONTINUED)

Business combination of entities under common control

Taking into the account that majority shareholders of both banks, Privredna banka Zagreb d.d. and Intesa Holding International S.A. are members of Intesa Sanpaolo Group, the transaction is considered as Business combination of entities under common control. The international standards governing financial reporting do not prescribe the accounting treatment of business combinations involving entities under common control, in which all of the combining entities are ultimately controlled by the same party, both, before and after the business combination.

In accordance with IAS 8, “Accounting Policies, Changes in Accounting Estimates, and Errors,” in the absence of an appropriate standard or interpretation that could be applied on a certain transaction or event, the management may consider the guidance of other standard-setting authorities that rely on a similar conceptual framework for the development of accounting standards.

In consideration of the afore-described, the Bank’s management adopted accounting policies which are in accordance with the Parent Bank’s guidelines harmonized with the generally-accepted accounting principles applied in the United States of America. In accordance with the interpretation, the financial statement components of entities involved in business combination, for the period in which the business combination occurs and all comparative periods disclosed should be included in the Receiving entity’s financial statements, as if they had been combined from the beginning of the earliest period presented, on the basis of the book value with the elimination of interbank balances or transactions.

For the merger transaction, differences between share capital issued and share capital acquired is adjusted against equity, and presented within share premium.

(all amounts are expressed in thousands of KM)

2. MERGER OF LT GOSPODARSKA BANKA D.D. INTO UPI BANKA D.D. (CONTINUED)

Financial statements and financial information presented for prior years are restated to furnish comparative information.

Pro-forma balance sheet

	LT Gospodarska d.d. 31 July 2007	UPI banka d.d. 31 July 2007	Eliminated internal transactions	Opening balance UPI banka d.d. 1 August 2007
ASSETS				
Cash and cash equivalents	31,579	169,212	-	200,791
Obligatory reserve with the Central Bank	23,788	90,129	-	113,917
Placements with other banks	9,795	46,186	(8,012)	47,969
Loans and receivables	118,222	335,978	-	454,200
Assets available for sale	3	1,256	-	1,259
Other assets	4,883	6,189	160	11,232
Property plant and equipment	3,840	17,313	-	21,153
TOTAL ASSETS	**192,110**	**666,263**	**(7,852)**	**850,521**
LIABILITIES				
Due to banks and other institutions	19,056	59,401	(8,012)	70,445
Subordinated debt	-	16,894	-	16,894
Due to customers	152,478	541,176	-	693,654
Provisions for contingent liabilities and commitments	458	2,364	-	2,822
Other liabilities	3,071	5,888	-	8,959
Other provisions	354	2,713	-	3,067
TOTAL LIABILITIES	**175,417**	**628,436**	**(8,012)**	**795,841**
SHAREHOLDERS' EQUITY				
Share capital UPI Banka d.d.	-	22,900	9,038	31,938
Share capital LT Gospodarska Banka d.d	17,657	-	(17,657)	-
Share premium	-	-	8,619	8,619
Reserves and retained earnings	(964)	14,927	160	14,123
TOTAL SHAREHOLDER'S EQUITY	**16,693**	**37,827**	**160**	**54,680**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**192,110**	**666,263**	**(7,852)**	**850,521**
FINANCIAL COMMITMENTS AND CONTINGENCIES	**23,508**	**87,489**	**-**	**110,997**

(all amounts are expressed in thousands of KM)

2. MERGER OF LT GOSPODARSKA BANKA D.D. INTO UPI BANKA D.D. (CONTINUED)

Pro-forma income statement

	LT Gospodarska d.d. 31 July 2007	UPI banka d.d. 31 July 2007	Eliminated internal transactions	Pro-forma UPI banka d.d. 31 July 2007
Interest income	7,405	19,655	(12)	27,048
Interest expense	(2,602)	(6,379)	12	(8,969)
Net interest income	**4,803**	**13,276**		**18,079**
Fee and commission income	1,747	4,131	-	5,878
Fee and commission expense	(537)	(1,180)	-	(1,717)
Net fee and commission income	**1,210**	**2,951**	**-**	**4,161**
Net FX income	899	175	-	1,074
Other operating income	57	452	-	509
Operating income	**956**	**627**	**-**	**1,583**
Administrative expenses	(6,170)	(9,945)	-	(16,115)
Depreciation of tangible fixed assets	(489)	(814)	-	(1,303)
Operating Expense	**(6,659)**	**(10,759)**	**-**	**(17,418)**
Profit before IMPAIRMENT LOSSES, PROVISIONS AND INCOME TAX	**310**	**6,095**	**-**	**6,405**
Impairment losses and provisions	(1,320)	(6,712)	160	(7,872)
Collected write-offs	601	1,500	-	2,101
PROFIT BEFORE INCOME TAX	**(409)**	**883**	**160**	**634**
Income tax	-	(48)	-	(48)
NET PROFIT FOR THE PERIOD	**(409)**	**835**	**160**	**586**

3. ADOPTION OF NEW STANDARDS AND REVISED STANDARDS

3.1 Standards and Interpretations effective in the current period

In the current year, the Bank has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 Presentation of Financial Statements.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Bank's financial instruments and management of capital (see note 32).

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies; IFRIC 8 Scope of IFRS 2; IFRIC 9 Reassessment of Embedded Derivatives; and IFRIC 10 Interim Financial Reporting and Impairment. The adoption of these Interpretations has not led to any changes in the Bank's accounting policies.

3.2 Standards and Interpretations in issue not yet adopted

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

- IAS 23 (Revised) Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 8 Operating Segments (effective for accounting periods beginning on or after 1 January 2009); and
- IFRIC 13 Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008);
- IFRIC 11 IFRS 2: Company and Treasury Share Transactions (effective for accounting periods beginning on or after 1 March 2007);
- IFRIC 12 Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008); and
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2008).

The directors anticipate that all of the above Standards and Interpretations will be adopted in the Bank's financial statements for the period commencing 1 January 2008 and that the adoption of those Interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

4. SUMMARY SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as published by the International Accounting Standards Board and as modified by the regulatory requirements of the Banking Agency of Federation of Bosnia and Herzegovina.

As required by local legislation, the Bank prepares financial statements in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board and as modified by the regulatory requirements prescribed by the Banking Agency of Federation of Bosnia and Herzegovina (the FBA) with respect to the calculation of provision for impairment of financial instruments. The FBA rules require banks to calculate the allowance for impairment of financial assets including a 2% allowance for performing financial instruments.

Management of the Bank believes that provisions made under IFRS as modified by the regulatory requirements prescribed by the Banking Agency of Federation of Bosnia and Herzegovina are not significantly different from provisions that would be made under IFRS.

The financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments which are reported at fair value. The principal accounting policies are set out below.

The financial statements are presented in thousands of convertible mark (KM'000) which is the functional currency of the Bank.

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

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as at the balance sheet date and actual results could differ from those estimates.

The Bank maintains its books of accounts and prepares financial statements for regulatory purposes in accordance with the regulations of the Banking Agency of Federation of Bosnia and Herzegovina (FBA) and Law on Banks of the Federation of Bosnia and Herzegovina.

Interest Income and Expense

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Interest charged on deposits is added to the principal where this is foreseen by the agreement. Interest income is suspended when it is considered that recovery of the income is unlikely. Suspended interest is recognized as income when collected.

4. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fee and commission income and expense

Fees and commissions consist mainly of fees earned on domestic and foreign payment transactions, and fees for loans and other credit instruments issued by the Bank.
Fees for payment transactions are recognized in the period when services are rendered.
Loan origination fees, after approval and drawdown of loans, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan over its life.

Employee benefits

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

Retirement severance payments

According to the local legislation and internal Rulebook on employment, the Bank makes retirement severance payments of minimum 3 average monthly salaries of the employee in question or 3 average salaries of the Federation of Bosnia and Herzegovina paid in the period of the last three months, depending on what is more favourable to the employee.
Provisions for the employee benefits are calculated using the projected credit unit method.

Taxation

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

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

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

4. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

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

Cash and cash equivalents

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

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

Financial assets

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

4. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- the fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Financial liabilities are classified into the following specified categories: financial liabilities ''at fair value through profit or loss''' (FVTPL), or other financial liabilities. Bank uses ”other financial liabilities” category only.

Effective interest method

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

AFS financial assets

Unlisted shares and listed redeemable notes held by the Bank that are traded in an active market are classified as being AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the Bank’s right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loan and receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method, less any allowance for impairment. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction as well as fees received from customers.

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans computed at initial recognition.

4. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and receivables (Continued)

Specific allowances are assessed with reference to the credit standing and performance of the borrower and take into account the value of any collateral or third party guarantees.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Objective evidence of impairment for financial assets assessed collectively for impairment are the adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments) or national or local economic conditions that correlate with defaults on the assets in the group. When a loan is uncollectible, it is written off against the related allowance for impairment; subsequent recoveries are credited to the 'Impairment losses on loans and advances' line in the income statement.

The Bank charges penalty interest to borrowers when a portion of the loan falls overdue. Penalty interest is accounted for on a cash received basis in the caption 'Interest income'.

Impairment of financial assets

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

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

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

Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

4. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments issued by the Bank

Classification as debt or equity

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

Equity instruments

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

Compound instruments

The component parts of compound instruments issued by the Bank are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Financial guarantee contract liabilities

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

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

Financial liabilities

Financial liabilities are classified as either financial liabilities ''at FVTPL" or ''other financial liabilities".

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a Bank of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the Bank is provided internally on that basis; or

(all amounts are expressed in thousands of KM)

4. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities at FVTPL (Continued)

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 4.

Other financial liabilities

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

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

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

Property and equipment

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

Properties in the course of construction are carried at cost, less impairment loss, if any. Depreciation commences when the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the estimated useful life of the applicable assets and based upon the application of the following annual percentages to historical costs:

	2007	2006
Buildings	1.30%	1.30%
Furniture and other equipment	10.00%-20.00%	10.00%-20.00%
Computers	20.00%	20.00%
Leasehold improvements	20.00%	20.00%
Software	20.00%	20.00%

(all amounts are expressed in thousands of KM)

4. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation

Transactions in currencies other than Bosnia and Herzegovina KM are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Profits and losses arising on translation are included in the statement of income for the period.

The Bank values its assets and liabilities by middle rate of Central Bank of Bosnia and Herzegovina valid at the date of balance sheet. The principal rates of exchange set forth by the Central Bank and used in the preparation of the Bank's balance sheet at the reporting dates were as follows:

31 December 2007	1 EUR = 1.95583 KM	1 USD = 1.331221 KM
31 December 2006	1 EUR = 1.95583 KM	1 USD = 1.485065 KM

Off-balance sheet commitments

In the ordinary course of business, the Bank enters into credit related commitments which are recorded in off-balance sheet accounts and primarily include guarantees, letters of credit and undrawn loan commitments. Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IAS 18, Revenue

Provisions

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

Reclassification

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

Regulatory requirements

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINITY

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

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

Key sources of estimation uncertainty

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

Useful lives of property, plant and equipment

As described above, the Bank reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period as described in Note 4.

Fair value of financial assets and liabilities

The directors use their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates.

It is the opinion of the management of the Bank that the fair value of the Bank's financial assets and liabilities are not materially different from the amounts stated in the balance sheets as at 31 December 2007 and 31 December 2006. In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used:

Cash balances with the Central bank

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

Due from banks

The estimated fair value of amounts due from banks that mature in 180 days or less approximates their carrying amounts. The fair value of other amounts due from banks is estimated based upon discounted cash flow analyses using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing amounts due from banks is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral. Allowances are not taken into consideration when calculating fair values.

Loans and advances to customers

The fair value of variable yield loans that regularly reprice, with no significant change in credit risk, generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analyses, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality.

(all amounts are expressed in thousands of KM)

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINITY (CONTINUED)

Amounts due to banks and customers

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

6. INTEREST INCOME

	2007	2006.
Companies	13,915	11,906
Individuals	19,552	9,650
Domestic banks	6,685	3,217
Foreign banks	2,534	2,817
Government	248	250
Other	24	204
	42,958	**28,044**

7. INTEREST EXPENSE

	2007	2006
Individuals	6,518	2,968
Banks and other financial institutions	4,415	1,899
Companies	3,383	3,911
	14,316	**8,778**

8. FEE AND COMMISSION INCOME

	2007	2006
Domestic payment transactions	2,236	1,593
Credit card activities	2,051	1,699
Foreign payment transactions	1,391	976
FX transactions	1,095	546
Guarantees	1,025	965
Agency services	268	342
Other	1,172	413
	9,238	**6,534**

(all amounts are expressed in thousands of KM)

9. FEE AND COMMISSION EXPENSE

	2007	2006
Credit card operations	1,728	1,100
Banking Agency of FBiH services	503	309
Central Bank BiH services	182	138
Domestic payment transactions	190	126
E-banking service	96	83
Other	-	97
	2,699	**1,853**

10. NET FOREIGN EXCHANGE INCOME

	2007	2006
Gains on foreign exchange transactions	8,487	5,345
Loss on foreign exchange transactions	(8,166)	(5,015)
	321	**330**

11. OTHER OPERATING INCOME

	2007	2006
Rental income	173	158
Dividend income	120	113
Gain on sale of property, plant and equipment	61	-
Other income	440	225
	794	**496**

12. COLLECTED WRITE-OFFS

	2007	2006
Interest	2,162	685
Principal	815	1,090
Other	46	1,009
	3,023	**2,784**

(all amounts are expressed in thousands of KM)

13. ADMINISTRATIVE EXPENSES

	2007	2006
Personnel expenses	12,341	7,612
Rent and other rent related expense	1,399	539
Telecommunication and post expense	1,563	763
Saving deposit insurance and other insurance charges	1,105	585
Provisions (Note 28)	907	2,764
Material expenses	805	425
Representation and marketing expense	543	706
Consultancy expenses	424	158
Energy	369	196
Loss on disposal of property, plant and equipment	-	28
Other expenses	2,521	1,591
	21,977	**15,367**

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

The average number of personnel employed by the Bank during the years ended 31 December 2007 and 2006 was 327 and 217 respectively.

14. IMPAIRMENT LOSSES AND PROVISIONS

	2007	2006
(Release of)/additions on impairment losses on placements with other banks	(161)	120
Impairment losses on loans and advances originated by the Bank	12,167	9,574
Additions on impairment losses on assets available for sale	15	133
Additions on provision for commitments and contingent liabilities	72	118
Provisions	1,720	375
	13,813	**10,320**

(all amounts are expressed in thousands of KM)

15. INCOME TAX

	2007	2006
Profit before income tax	1,605	783
(Realised)/unrealised gains on financial assets available for sale	-	-
Non-deductible expenses and taxable income relieves	3,548	1,379
Taxable income	5,153	2,162
Income tax liability of 30%	1,546	649
Reinvestment allowance	(1,160)	(487)
Tax allowance for foreign investment	(309)	(130)
Income tax liability	**77**	**32**

Tax liability is based on accounting income before restatement taking into the account non-deductible expenses and non-taxable income. Tax income rate for the years ended 31 December 2007 and 2006 was 30 %. The Bank is eligible for a 75% reduction of its liability to corporate profit tax to the extent that it will reinvest the amount of the underlying taxable profits into fixed assets in the following period.

The Bank is eligible for an allowance against taxable profits in proportion to its foreign owned percentage of share capital in the first five years of such foreign investment.

16. EARNINGS PER SHARE

	2007	2006
Net profit	1,528	751
Weighted average number of ordinary shares outstanding	267,576	229,000
Basic earnings per share	**0.00571**	**0.00328**

17. CASH AND CASH EQUIVALENTS

	31. December 2007	31. December 2006
Current account in domestic currency with the Central Bank	130,724	85,778
Cash on hand in domestic currency	13,371	6,125
Cash on hand in foreign currency	8,582	4,226
Correspondent accounts with banks in foreign currency	2,232	1,388
	154,909	**97,517**

(all amounts are expressed in thousands of KM)

18. OBLIGATORY RESERVE AT CENTRAL BANK

	31. December 2007	31. December 2006
Obligatory reserve	132,022	69,744
	132,022	**69,744**

Minimum obligatory reserve as of 31 December 2007 and 31 December 2006 is calculated in amount of 15% of the average amount of total deposits and the borrowings for each working day during 10 calendar days following the period of maintaining the obligatory reserve.

19. PLACEMENTS WITH OTHER BANKS

	31. December 2007	31. December 2006
Short-term placements with banks in following countries:		
Bosnia and Herzegovina	36	1,600
OECD countries	90,053	66,900
Placements to other financial institutions, gross	90,089	68,500
Less: Provisions for possible losses for placements	(1)	(161)
	90,088	**68,339**

The interest rate for placements in EUR was 3.70% p.a. and 2.72% – 2.84% p.a. and for placements in USD 5.10% p.a. and 5.09% p.a. as at 31 December 2007 and 31 December 2006, respectively.

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

	2007	2006
Balance as at 1 January	**161**	**41**
Merger of LT Gospodarska d.d. Sarajevo	1	-
Provisions	223	149
Reversal of provisions	(384)	(29)
Balance as at 31 December	**1**	**161**

(all amounts are expressed in thousands of KM)

20. LOANS AND RECEIVABLES

	31. December 2007	31. December 2006
Short-term loans in domestic currency	181,264	140,872
Short-term loans in foreign currency	5,836	199
Current portion of long-term loans	83,742	14,159
Total short-term loans	270,842	155,230
Long-term loans in domestic currency	161,926	91,560
Long-term loans in foreign currency	222,669	34,035
(Current portion of long-term loans)	(83,742)	(14,159)
Total long-term loans	300,853	111,436
Total loans before provisions	*571,695*	*266,666*
Provision for impairment	(31,346)	(18,554)
	540,349	**248,112**

Short-term loans are granted for periods of 1 to 365 days. The majority of short-term loans in domestic currency are granted to clients for working capital financing. Long-term loans are mostly granted to individuals for housing and vehicle purchases.

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

	2007	2006
Balance as at 1 January	**18,554**	**14,184**
Merger of LT Gospodarska Banka d.d. Sarajevo	6,821	-
Provisions charged	23,147	22,026
Reversal of provision	(10,980)	(12,452)
Write-offs	(6,196)	(5,204)
Balance as at 31 December	**31,346**	**18,554**

Total amount of non-performing loans on which interest was suspended as at 31 December 2007 and 2006 was KM 36,650 thousand and KM 17,398 thousand, respectively.

	31. December 2007	31. December 2006
Manufacturing industry	103,176	62,633
Trade	80,421	50,533
Construction industry	30,111	15,573
Services, finance, sport, tourism	12,899	12,792
Administrative and other public institutions	2,349	371
Agriculture, forestry, mining and energy	17,070	11,694
Transport and telecommunications	7,699	4,721
Other	7,818	542
Citizens	310,152	107,807
	571,695	**266,666**

(all amounts are expressed in thousands of KM)

20. LOANS AND RECEIVABLES (CONTINUED)

Interest rates for granted loans as at 31 December 2007 and 2006 are summarized as follows:

	31. December 2007		31. December 2006	
	KM ‘000	Annual interest rate	KM ‘000	Annual interest rate
Domestic currency				
Companies	233,370	1.50% - 13.50%	145,137	4.40% - 13.00%
Citizens	109,820	4.00% - 12.75%	87,294	3.88% - 14.50%
Foreign currency				
Companies	32,700	6.65% - 10.75%	13,721	7.20% - 10.93%
Citizens	195,805	5.00% - 11.00%	20,514	4.61% - 10.00%
	571,695		**266,666**	

21. ASSETS AVAILABLE FOR SALE

	31. December 2007	31. December 2006
Gross value	1,285	1,319
Impairment	(26)	(48)
	1,259	**1,271**

Assets available for sale include investments of 20.03% in share capital of Bamcard d.d. Sarajevo in the amount of KM 488 thousand, since the Bank is planning to sell this investment in the near future.
Also, assets available for sale include investments of 2% or less in various companies in Bosnia and Herzegovina recognized at cost of KM 51 thousand (2006: KM 95 thousand) and one investment representing a 14.63% shareholding in Bosna Reosiguranje d.d. Sarajevo which is recognised at estimated fare value of KM 736 thousand (2006: KM 736 thousand).

	2007	2006
Balance as at 1 January	48	197
Provisions	15	133
Write offs	(37)	(282)
Balance as at 31 December	**26**	**48**

(all amounts are expressed in thousands of KM)

22. OTHER ASSETS

	31. December 2007	31. December 2006
Prepaid income taxes	3,724	2,282
Payment to the Cantonal Privatization Agency for privatization of "Projekt" d.d. Sarajevo	1,200	-
Prepaid expenses	710	796
Fees receivable	581	430
Receivables from card operations	450	-
Other assets	2,044	1,186
Total other assets	*8,709*	*4,694*
Provision for impairment	(391)	(188)
	8,318	**4,506**

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

	2007	2006
Balance as at 1 January	**188**	**217**
Merger of LT Gospodarska Banka d.d. Sarajevo	131	-
Provisions	686	948
Reversal of provision	(614)	(830)
Write-offs	-	(147)
Balance as at 31 December	**391**	**188**

(all amounts are expressed in thousands of KM)

23. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Computers and other equipment	Software	Construc-tion in progress	Leasehold improve-ments	Building out of use	Total
Cost value							
31 December 2005	**9,986**	**5,674**	**846**	**967**	**187**	**-**	**17,660**
Additions	-	52	-	2,938	-	-	2,990
Transfer from	350	1,821	128	(2,299)	-	-	-
Transfer to other assets	-	-	-	-	(187)	-	(187)
Disposals	(163)	(335)	(2)	-	-	-	(500)
31 December 2006	**10,173**	**7,212**	**972**	**1,606**	**-**	**-**	**19,963**
Merger of LT Gospodarska d.d. Sarajevo	2,234	3,450	1,408	211	1,852	-	9,155
Additions		21		7,166	-	-	7,187
Disposals	(60)	(828)	-	-	-	-	(888)
Transfers from construction in progress	1,318	3,238	285	(7,400)	2,191	368	-
Transfer from other assets	-	-	-	-	519	-	519
31 December 2007	**13,665**	**13,093**	**2,665**	**1,583**	**4,562**	**368**	**35,936**
Accumulated Depreciation							
31 December 2005	**584**	**3,189**	**484**	**-**	**125**	**-**	**4,382**
Depreciation for the period	134	783	170	-	-	-	1,087
Transfer to other assets	-	-	-	-	(125)	-	(125)
Disposals	(8)	(308)	(2)	-	-	-	(318)
31 December 2006	**710**	**3,664**	**652**	**-**	**-**	**-**	**5,026**
Merger of LT Gospodarska d.d. Sarajevo	350	2,057	1,055	-	1,463	-	4,925
Depreciation for the period	157	1,213	278	-	271	5	1,924
Disposals	(24)	(610)	-	-	-	-	(634)
31 December 2007	**1,193**	**6,324**	**1,985**	**-**	**1,734**	**5**	**11,241**
Net book value: 31 December 2007	**12,472**	**6,769**	**680**	**1,583**	**2,828**	**363**	**24,695**
Net book value: 31 December 2006	**9,463**	**3,548**	**320**	**1,606**	**-**	**-**	**14,937**

(all amounts are expressed in thousands of KM)

24. DUE TO BANKS AND OTHER INSTITUTIONS

	31.12.2007	31.12.2006
Current portion of long-term borrowings	14,308	12,322
Short-term borrowings from other institutions	51	-
Total short-term borrowings	*14,359*	*12.322*
Long-term borrowings from foreign banks and other institutions	117,851	35,686
Long-term borrowings from domestic banks and other institutions	16,433	8,220
(Current portion of long-term borrowings)	(14,308)	(12,322)
Total long-term borrowings	119,976	31,584
Current accounts in domestic currency	533	14,174
Current accounts in foreign currency	-	5
Total current accounts	*533*	*14,179*
Short-term deposit	39,117	
Long-term deposits	9,779	3,273
	183,764	**61,358**

Long-term borrowings from international banks and non-banking financial and non-financial institutions as at 31 December 2007 and 31 December 2006 were as follows:

	31.12.2007	31.12.2006
Commerzbank Ag Frankfurt, Germany	58,706	-
Intesa Sanpaolo SPA Milan, Italy	28,452	9,856
Societe Europeenne De Banque S.A., Luxembourg	9,784	-
European Fund for Southeast Europe (EFSE), Luxembourg	8,918	9,166
Investicijska banka Federacije Bosne i Hercegovine d.o.o. Sarajevo	6,727	6,133
European Bank for Reconstruction and Development, London, UK	5,716	9,643
Federalni zavod za zapošljavanje, Sarajevo	3,851	-
Federalno ministarstvo finansija, Sarajevo	2,475	848
Vlada SBH/ŽSB, Travnik	2,114	-
OPEC FUND for International Development, Vienna, Austria	1,784	2,294
Privredna banka Zagreb d.d., Zagreb, Croatia	1,606	-
Hrvatska banka za obnovu i razvitak (HBOR), Zagreb, Croatia	1,384	1,636
Federalno ministarstvo šumarstva i vodoprivrede, Sarajevo	1,028	1,028
Partners for Development, Sarajevo	922	1,750
USAID Business Finance Office Sarajevo	579	1,340
Služba za zapošljavanje SBK / ŽSB	217	-
The Lutheran World Federation BiH	21	21
Izvozno kreditna agencija Bosne i Hercegovine, IGA , Sarajevo	51	191
	134,335	**43,906**

Interest rates for long-term borrowings from banks and other institutions were in the range from 0% to 8.11% per annum and from 0% to 8.11% per annum as of 31 December 2007 and 31 December 2006, respectively.

(all amounts are expressed in thousands of KM)

25. SUBORDINATED DEBT

	31.12.2007	31.12.2006
Intesa Sanpaolo Holding International S.A. Luxemburg	15,003	-
USAID	1,730	1,890
	16,733	**1,890**

The subordinated loan from Intesa Sanpaolo Holding International S.A. Luxemburg amounting to KM 15,000 thousand was received in 5 June 2007 and it is repayable quarterly starting from 29 June 2007 until 5 June 2012. Interest rate is 3M EURIBOR + 2.3%.
The subordinated loan from USAID as of 31 December 2007 and 31 December 2006 respectively amounting to KM 1,730 thousand and KM 1,890 thousand was received in August 2003 in the amount of KM 2,408 thousand, and it is repayable in 60 quarterly instalments starting from 1 December 2003 until 1 September 2018. Interest rate is Euro LIBOR p.a.
Subject to the approval of the Banking Agency of federation of Bosnia and Herzegovina, the subordinated debit may be used as additional capital.

26. DUE TO CUSTOMERS

	31.12.2007	31.12.2006
Demand deposits:		
Citizens:		
In KM	46,124	20,145
In foreign currencies	23,023	5,062
Subtotal	69,147	25,207
Legal entities:		
In KM	290,306	195,728
In foreign currencies	37,234	30,617
Subtotal	327,540	226,345
Total demand deposits	**396,687**	**251,552**
Term deposits:		
Citizens:		
In KM	40,232	24,852
In foreign currencies	139,343	64,751
Subtotal	179,575	89,603
Legal entities:		
In KM	64,330	41,480
In foreign currencies	18,854	14,192
Subtotal	83,184	55,672
Total term deposits	**262,759**	**145,275**
	659,446	**396,827**

During 2007 interest rates for demand deposits in KM were 0.25% (during 2006 from 0.25% to 1.15%), and 0.25% for demand deposits in foreign currency (during 2006. 0.25%). Short-term deposit interest rates were from 0.00% to 5.46% and from 0.00% to 4.70% during 2007 and 2006, respectively. Long-term deposit interest rates were from 0.00% to 8.00% and from 0.00% to 6.50% during 2007 and 2006, respectively.

(all amounts are expressed in thousands of KM)

27. OTHER LIABILITIES

	31.12.2007	31.12.2006
Liabilities for loan collections	2,100	-
Liabilities to vendors	963	820
Liabilities for employees bonuses	776	675
Managed fund difference (Note 32)	302	26
Credit card liabilities	266	213
Liabilities to shareholders	151	148
Deferred tax liability	50	50
Other liabilities	1,252	1,115
	5,860	**3,047**

28. OTHER PROVISIONS

	31.12.2007	31.12.2006
Provisions relating to the court case with tax authority	1,324	822
Provisions relating to the merger of LT Gospodarska banka d.d. Sarajevo	629	1,923
Provisions for retirement employee benefits and other short employees benefits	656	222
	2,609	**2,967**

Regarding the merger process of LT Gospodarska banka d.d. Sarajevo, another Banca Intesa Group entity, into the Bank, the Supervisory board made the decision on initiation of merger in 2007, estimating the present value of future obligations relating to the merger activities.

Provisions regarding the court case are made based on the uncertainty in the outcome of the ongoing court case with the tax authority.

(all amounts are expressed in thousands of KM)

28. OTHER PROVISIONS (CONTINUED)

	Provisions for legal proceedings	Provision relating to merger of LT Gospodarska banka d.d. Sarajevo	Provisions for retirement employee benefits and other short employees benefits	Total
Balance at 31 December 2005	**-**	**-**	**203**	**203**
Additional provision recognised	822	1,923	19	2,764
Balance at 31 December 2006	**822**	**1,923**	**222**	**2,967**
Merger of LT Gospodar-ska d.d. Sarajevo	-	-	354	354
Additional provision recognised	502	319	86	907
Reductions arising from payments	-	(1,613)	(6)	(1,619)
Balance at 31 December 2007	**1,324**	**629**	**656**	**2,609**

29. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover collateral or outstanding credit balances, as well as related interest and expenses from defaulted credit customers and interbank counterparts. The management of the Bank believes that any legal proceedings pending as at 31 December 2007 will not result in material loss to the Bank.

	31.12.2007	**31.12.2006**
Contingent liabilities		
Payment guarantees	14,595	10,800
Performance guarantees	25,141	19,187
Letters of credit	942	1,133
Total contingent liabilities	**40,678**	**31,120**
Commitments		
Unused portion of overdraft loans	71,166	36,975
Total commitments	71,166	36,975
Total contingent liabilities and commitments	**111,844**	**68,095**

(all amounts are expressed in thousands of KM)

30. PROVISIONS

In the ordinary course of business, the Bank enters into credit related commitments which are recorded in off-balance sheet accounts and primarily include guarantees, letters of credit and undrawn loan commitments. Provisions for contingent liabilities are recognised when the Bank has a present obligation as a result of a past event, and it is probable that the Bank will be required to settle that obligation. Management Board estimates the provisions based at the best estimate of expenditure to settle the Bank's obligation.

Movements in provision for contingent liabilities and commitments are as follows:

	2007	2006
Balance as at 1 January	**1,345**	**1,387**
Merger of LT Gospodarska banka d.d. Sarajevo	458	
Increase in provisions	4,156	2,008
Reversal of provision	(2,436)	(1,633)
Write offs	(496)	(417)
Balance as at 31 December	**3,027**	**1,345**

31. RELATED-PARTY TRANSACTIONS

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

a. enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);

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

c. individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;

d. key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and

e. enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

(all amounts are expressed in thousands of KM)

31. RELATED-PARTY TRANSACTIONS (CONTINUED)

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

	2007	2006
Receivables		
Key management personnel and close family members	208	425
Bank accounts Privredna Banka d.d. Zagreb Croatia	44	26
Bank accounts Intesa Sanpaolo SPA Milano	14	14
Bank accounts Intesa Sanpaolo SPA, NY Branch	15	16
Other receivables from European Bank for Reconstruction and Development (EBRD)	39	58
Other receivables from Intesa Sanpaolo SPA Milan	-	36
Other receivables Privredna Banka d.d. Zagreb Croatia	-	120
Centurion finansijeke usluge d.o.o. Sarajevo	680	
Projekt d.d. Sarajevo	1,200	
	2,200	**695**
Liabilities		
Deposits Supervisory board members and close family members	11	-
Deposits Key management personnel and close family members	254	1,868
Borrowings and other liabilities to European Bank for Reconstruction and Development (EBRD)	5,720	9,646
Due to banks and other liabilities to Privredna Banka d.d. Zagreb Croatia	1,610	3
Borrowings Intesa Sanpaolo SPA Milan	77,347	9,856
Societe Europeenne de Banque S.A. Luxemburg	9,784	
Centurion finansijske usluge d.o.o. Sarajevo	245	
Intesa Sanpaolo Holding International S.A. Luxemburg	15,003	
	109,974	**21,373**

Income		
Interest income Key management personnel and close family members	3	29
Interest income Privredna Banka d.d. Zagreb Croatia	4	162
Interest income Intesa Sanpaolo SPA Milan	18	1
Interest income Intesa Sanpaolo NY Branch	12	5
Other income European Bank for Reconstruction and Development (EBRD)	-	8
Other income Privredna banka d.d Zagreb Croatia	-	8
Other income Key management personnel and close family members	-	5
Centurion finansijske usluge d.o.o. Sarajevo	107	-
	144	**218**

(all amounts are expressed in thousands of KM)

31. RELATED-PARTY TRANSACTIONS (CONTINUED)

	2007	2006
Expenses		
Interest expense European Bank for Reconstruction and Development (EBRD)	427	637
Interest expense Intesa Sanpaolo SPA, Milano	1,658	154
Interest expense Key management personnel and close family members	6	77
Other expenses Intesa Sanpaolo SPA, New York	4	2
Other expenses Key management personnel and close family members	-	29
Other expense Privredna Banka d.d. Zagreb Croatia	46	11
Other expense Intesa Sanpaolo SPA, Milano	7	4
Other expense European Bank for Reconstruction and Development (EBRD)	24	2
Centurion finansijske usluge d.o.o. Sarajevo	9	-
Societe Europeenne de Banque S.A. Luxemburg	144	-
Intesa Sanpaolo Holding International S.A. Luxemburg	591	-
Projekt d.d. Sarajevo	147	-
	3,063	**916**

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

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

	2007	2006
Compensation for directors and other key management	350	446
Taxes and contributions on compensation	236	308
Termination benefits	86	234
Bonuses to Management board – Accrued expenses	250	294
Compensations for Supervisory Board members	-	7
Compensations for Audit Committee members	-	4
Other Management benefits	177	45
	1,099	**1,338**

(all amounts are expressed in thousands of KM)

32. MANAGED FUNDS

The Bank manages assets on behalf of third parties. These assets are recorded separately from the Bank's assets. For its services, the Bank charges a fee amounting from 0.60 to 2.50% p.a. (in 2006 from 0.75% to 2.50% p.a.) of the total amount contributed.

Liabilities	2007	2006
Investment Bank of Bosnia and Herzegovina	2,332	2,519
Companies	**22,278**	**18,326**
Investment Guarantee Agency - IGA	2,123	2,415
Managed on behalf and for the account of the Sarajevo Canton, Ministry of Finance	118	168
Total	**26,851**	**23,428**
Assets		
Loans to companies	23,912	21,603
Loans to citizens	2,637	1,799
Total	**26,549**	**23,402**
Amounts due to original creditors – managed funds (Note 27)	**302**	**26**

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

33. FINANCIAL INSTRUMENTS

Capital management

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

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

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

	31 December 2007	**31 December 2006**
Debt (i)	843,210	458,185
Cash and cash equivalents	(377,019)	(235,600)
Net debt	466,191	222,585
Capital (ii)	96,934	38,882
Net debt to capital ratio	**4.81**	**5.72**

Debt (i) is defined as liabilities to banks and clients presented in detail in Notes 24 and 26. Capital (ii) includes total capital, Bank's reserves and subordinated debt.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by Banking Agency of Federation of Bosnia and Herzegovina (FBA) for supervisory purposes. The required information is filed with the FBA on a quarterly basis.

(all amounts are expressed in thousands of KM)

33. FINANCIAL INSTRUMENTS (CONTINUED)

Capital management (Continued)

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

The Bank's regulatory capital is divided into two tiers:

• Tier 1 capital or Core Capital: share capital (net of any book values of the treasury shares), share premium, retained earnings and reserves created by appropriations of retained earnings; and

• Tier 2 capital or Supplementary Capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arsing on the fair valuation of equity instruments held as available for sale.

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

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

	2007	**2006**
Tier 1 capital		
Share Capital (net of treasury shares)	37,145	22,900
Share Premium	28,401	-
Statutory reserves	614	614
Retained Earnings	4,674	4,111
Other reserves not related to assets valuation	9,252	9,252
Total qualifying Tier 1 Capital	*80,086*	*36,877*
Tier 2 capital		
Qualifying subordinated loan capital	16,733	1,890
Collective impairment allowances	11,473	5,335
Revaluation reserve – available for sale investments	115	115
Total qualifying Tier 2 Capital	*28,321*	*7,340*
Total regulatory capital	**108,407**	**44,217**
Risk weighted assets		
On balance sheet	558,111	303,763
Off balance sheet	59,984	39,448
Basel ratio	**17.54%**	**12.88%**

Financial risk management objectives

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

(all amounts are expressed in thousands of KM)

33. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency risk

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

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

	Assets		Liabilities	
	31.12.2007	**31.12.2006**	**31.12.2007**	**31.12.2006**
EUR	430,160	164,051	420,584	158,741
USD	22,729	5,726	22,738	5,801
CHF	2,012	478	1,879	223
HRK	1,629	2,558	1,499	7
GBP	190	58	188	110
Other	1,040	323	754	71

<u>Foreign currency sensitivity analysis</u>

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

	USD Effect (KM '000)		CHF Effect (KM '000)	
	2007	**2006**	**2007**	**2006**
Profit or Loss	(1)	(8)	13	26

The analysis outlined above is used on open foreign currency position of the Bank, which includes all asset and liability items.

If the currency position of a foreign currency is "long" (assets exceeding liabilities) and the exchange rate for this currency increases in relation to the KM, the Bank will experience a foreign exchange gain.

If the currency position of a foreign currency is "long" (assets exceeding liabilities) and the exchange rate for this currency decreases in relation to the KM, the Bank will experience a foreign exchange loss.

If the currency position of a foreign currency is "short" (liabilities exceeding assets) and the exchange rate for this currency increases in relation to KM, the Bank will experience a foreign exchange loss.

If the currency position of a foreign currency is "short" (liabilities exceeding assets) and the exchange rate for this currency decreases in relation to KM, the Bank will experience a foreign exchange gain.

33. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency sensitivity analysis (continued)

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

Interest rate risk management

The Bank is exposed to interest rate risk as the Bank borrows funds at both fixed and floating interest rates. The risk is managed by the Bank by maintaining an appropriate mix between fixed and floating rate borrowings.

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

Interest rate risk reflects the possibility of loss of profit and/or erosion of capital due to a change in interest rates. It relates to all products and balances that are sensitive to changes in interest rates. This risk comprises two components: income component and investment component.

The income component arises from a lack of harmonization between the active and passive interest rates of the Bank (interest on placements is fixed, interest for liabilities is variable, and vice versa).

The investment component is a consequence of the inverted relationship between price and interest rate fluctuations of securities.

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

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (0.5%) higher/lower and all other variables were held constant, the Bank's:

- profit for the year ended 31 December 2007 would decrease/increase by KM 357 thousand (2006: decrease/increase by KM 151 thousand). This is mainly attributable to the Bank's exposure to interest rates on its variable rate borrowings; and

Credit risk management

The Bank takes on exposure to credit risk which is the risk upon credit approval and when counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

(all amounts are expressed in thousands of KM)

33. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk management (Continued)

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

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

Financial assets

31 December 2007	Total gross carrying amount	Unimpaired assets	Individually impaired assets	Provisions for losses	Total net carrying amount
Cash and balances with other banks	154,909	154,909	-	-	154,909
Obligatory reserve with the Central Bank	132,022	132,022	.	-	132,022
Placements with other banks	90,089	90,089	-	(1)	90,088
Loans and advances to customers	571,695	527,169	44,526	(31,346)	540,349
Assets available for sale	1,285	1,285	-	(26)	1,259
	950,000	**905,474**	**44,526**	**(31,373)**	**918,627**
31 December 2006					
Cash and balances with other banks	97,517	97,517	-	-	97,517
Obligatory reserve with the Central Bank	69,744	69,744	-	-	69,744
Placements with other banks	68,500	68,500	-	(161)	68,339
Loans and advances to customers	266,666	239,525	27,141	(18,554)	248,112
Assets available for sale	1,319	1,319	-	(48)	1,271
	503,746	**476,605**	**27,141**	**(18,763)**	**484,983**

(all amounts are expressed in thousands of KM)

33. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk management (Continued)

Credit exposure and collateral

31 December 2007	Credit risk exposure			
Description	**Loans given**	**Undrawn loan commitments and unutilized overdrafts**	**Commitments / Guarantees issued**	**Fair value of the collateral**
Legal entity	266,070	16,026	40,678	195,155
Retail	305,625	55,140	-	70,512
Total	**571,695**	**71,166**	**40,678**	**265,667**
31 December 2006				
Legal entity	158,858	9,166	31,120	124,438
Retail	107,808	27,809	-	17,476
Total	**266,666**	**36,975**	**31,120**	**141,914**

Fair value of the collateral

	31.12.2007	**31.12.2006**
Property	246,103	135,546
Deposits	19,564	6,368
	265,667	**141,914**

Delays

	Gross total loans and advances given to customers	**Undue**	**Until 30 ays**	**31 - 90 days**	**91 - 180 days**	**181 - 270 days**	**Over 270 days**
31 December 2007							
Legal entities	266,070	245,446	6,673	2,113	2,307	2,284	7,247
Retail	305,625	300,139	1,933	1,177	834	521	1,021
Total	**571,695**	**545,585**	**8,606**	**3,290**	**3,141**	**2,805**	**8,268**
31 December 2006							
Legal entities	159,215	149,316	3,832	443	549	2,774	2,301
Retail	107,451	105,468	923	230	66	33	731
Total	**266,666**	**254,784**	**4,755**	**673**	**615**	**2,807**	**3,032**

(all amounts are expressed in thousands of KM)

33. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk management

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with regulations laid down by the Banking Agency of Federation of Bosnia and Herzegovina. The table below provides an analysis of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities. Those assets and liabilities that do not have a contractual maturity date are grouped together under 'maturity undefined' category.

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

Liquidity and interest risk tables

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

	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
31.12.2007						
Due to banks and other institutions	21,403	1,012	21,658	142,368	17,564	204,005
Subordinated debit	-	228	966	20,202	1,035	22,431
Due to customers	406,176	28,543	124,415	114,898	5,239	679,271
Other financial liabilities	6,075	-	2	-	74	6,151
	433,654	**29,783**	**147,041**	**277,468**	**23,912**	911,858
31.12.2006						
Due to banks and other institutions	1,139	1,954	9,175	28,997	6,110	47,375
Subordinated debit		41	123	701	1,215	2,080
Due to customers	274,023	15,634	66,006	67,445	5,106	428,214
Other financial liabilities	1,218	-	-	4	62	1,284
	276,380	**17,629**	**75,304**	**97,147**	**12,493**	**478,953**

(all amounts are expressed in thousands of KM)

33. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk management

The following tables detail the Bank's remaining contractual maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Bank anticipates that the cash flow will occur in a different period.

	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
31.12.2007						
Cash and cash equivalents	154,909	-	-	-	-	154,909
Obligatory reserve with Central Bank	132,061	-	-	-	-	132,061
Placements with banks	89,790	37	-	-	-	89,827
Loans and receivables	92,283	39,861	162,247	251,478	121,920	667,789
Assets available for sale	-	-	1,199	60	-	1,259
Other financial assets	3,973	-	-	-	422	4,395
	473,016	**39,898**	**163,446**	**251,538**	**122,342**	**1,050,240**
31.12.2006						
Cash and cash equiva-lents	97,517	-	-	-	-	97,517
Obligatory reserve with Central Bank	69,765	-	-	-	-	69,765
Placements with banks	65,490	-	1,663	-	-	67,153
Loans and receivables	63,422	23,866	85,529	81,258	28,360	282,435
Assets available for sale		-	1,199	72	-	1,271
Other financial assets	1,450	383	-	-	185	2,018
	297,644	**24,249**	**88,391**	**81,330**	**28,545**	**520,159**

The Bank has access to sources of financing with total unused amount of KM 48,972 thousand (2006 – KM 76 thousand) at the balance sheet date. The Bank expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

34. EVENTS AFTER THE BALANCE SHEET DATE

As of 1 January 2008 the Central Bank of Bosnia and Herzegovina has changed the minimum obligatory reserve rate from 15% to 18%. This change has no effect on the financial statements of the Bank for the year ending 31 December 2007.

35. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board on 25 January 2008.

Signed on behalf of the Management Board:

Almir Krkalić Director	Livio Mannoni Executive director of Finance