Social entrepreneurship

Education and building independence of marginalized groups

Social inclusion

Annual report 2012

Economic empowerment of unemployed women

Business success of a company and an individual is possible only in an economically successful and socially strong community.

www.sparkasse.ba

SPARKASSE BANK

Annual report 2012

Content

SPARKASSE BANK

Profile

Profile

Sparkasse Bank dd

Tran. account: 1990000000000023
IB.: 4200128200006
SWIFT: ABSBBA 22

Headoffice

Zmaja od Bosne 7 71000 Sarajevo
E-mail: info@sparkasse.ba
Tel: 00 387 33 280 300
Fax: 00 387 33 280 230
SparkasseBankBiH
Sparkassebih

www.sparkasse.ba

Facts (2012)

Founded in:	1999
Assets:	897 mil. BAM
Owner:	Steiermärkische Sparkasse (97%)
Number of affiliates:	45
Number of clients:	app. 200,000
Number of employees:	452

Group members in BiH

LEASING
Company for leasing of vehicles, machinery and vessels.

SPARKASSE
Nekretnine
Company for mediation in realestate trade.

PREMIUM
Company for mediation in insurance operations.

Management

CEO
Sanel Kusturica, MBA

Executive director
Zahida Karić, MBA

Executive director
Mag. Nedim Alihodžić

Executive director
Mag. Amir Softić

Supervisory Board

Chair
Sava Dalbokov, MBA

Members
Mag. Gerhard Maier
Hamdija Alagić
Mag. Renate Ferlitz
Dr. Georg Bucher

Profile

Our owner.

Our bank is almost one hundred percent owned by Steiermärkische Sparkasse, which, with its business network and members in Steirermark and South East Europe, is the largest regional bank the south of Austria. The Group has a long-term and sustainable investment strategy in the region which makes it a reliable partner and investor backing up Sparkasse Bank and BiH.
As a member of Erste Bank and Sparkassen Austria, it is a part of the strongest group of banks focused on operations with the population, small and medium enterprises in Europe.

Sparkasse and sign.

Over almost 200 years of its operation, our mother bank, Steiermärkische Sparkasse, has developed into a recognizable trademark Sparkasse with the red that stands for:

- safety, trust and tradition, which make it a reliable partner for employees and clients;
- solid, crisis-proof business model of a strong and successful group;
- successful economic concept that maintains social responsibility principles.

Our vision.

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

Our mission.

Sparkasse Bank dd cares about the success of its clients:

- Competently,
- With tailor-made solutions,
- With continuous improvement of offer,
- In the long term.

Our objective.

Our objective is to develop towards the international standards of the group into a modern bank that maintains traditional values of Sparkasse, and is oriented towards operations with population, small and medium enterprises. Final goal is the long-term growth and development made possible by satisfied employees and clients.

Our guidelines

We take responsibility.

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

Reliability creates friendships.

We respect business ethics. Partnership with clients and employees is the key to their fidelity.

Cooperation with full trust.

We communicate openly and frankly.
We always keep to our word.

Safety with guaranty.

Protection of our clients and our employees for us is a must. We do it with all means available.

Tailor-made solutions.

There are no universal solutions – every client has the right to an offer created according to their individual needs. That is why we devote our attention, time and commitment to each one of them.

Courage as a chance.

Our team is guided by the principles of self-initiative, accepting new ideas and challenges, and ambition in the fulfilment of our objectives.

As the 3D Secure standard was introduced, Sparkasse Bank payment cards are the only ones protected by this kind of internet transaction security system.

Management Board

Management Board

Amir Softić,
Executive director

RISK management, Legal operations, Operations, Compliance management

Sanel Kusturica,
CEO

Retail, Human Resources, Marketing and PR, Secretariat

Zahida Karić,
Executive director

Accounting and controlling, Treasury management, AML function

Nedim Alihodžić,
Executive director

Corporate, IT and organization, Property and security management

Management Board

2012
Just another successful business year for the Sparkasse Bank

Respected shareholders, partners and clients, dear friends,

It is my great pleasure to have the opportunity to reflect upon another successful business year for the Sparkasse Bank.

Our efforts to justify the confidence of our clients and investors, and remain a safe and reliable employer to our hardworking employees, were under the pressure of negative macro-economic trends Banking sector of Bosnia and Herzegovina, as a whole, has indeed kept its stability, good capitalization and liquidity. However, deterioration of the country's credit rating brought upon by political instability and lack of economic reforms, as well as the stagnation of the Bosnian economy with the zero growth and all accompanying consequences in the real sector, have certainly not been in favor of the indicators.

Nevertheless, even in such aggravated business environment, we managed to find our path! In 2012, the Sparkasse Bank was among the most active banks on the market, which certainly helped us meet our objectives in line with the business plan and development strategy of our company.
Here are just some of the key indicators which, I am convinced, confirm previous statement.
In 2012 credits in our bank grew by 14.3%, which is significantly above the sector average, and among 29 banks active on the market, Sparkasse Bank generated about 17% of the total credit growth in the country.
It is important to remember that over 65% of all credits were placed in the commercial sector, which is a clear indicator of our commitment to support the development of the Bosnian economy, especially small and medium entrepreneurship.
In 2012 the deposit growth rate was 24%, and what makes us especially satisfied is the extraordinary growth of the individual savings portfolio by 45%, which shows the confidence that the citizens of Bosnia and Herzegovina have in the Sparkasse brand and their perception of our bank as a reliable and trustworthy partner.

Of course, we did our best to accompany such growth in volume by all activities that provide a long-term stability of the Bank's development. Undisputable health of our assets was reinforced by strong early credit risk detection, management and control mechanisms, as well as efficient collection.
In the past several years, poor quality credit growth has proved to be one of the major obstacles of a stronger credit growth and increased profitability of the banking sector in Bosnia and Herzegovina, effects of which could not be avoided. However, even according to the RISK indicators, the Sparkasse Bank belongs to a group of banks that stand out of the sector average, and, I dare say, among the leaders on the market, with poor quality credit rate of about 7%, compared to the sector average of over 13%.
In 2012 the Bank increased its business efficiency, measured by the cost/income ratio, and reached 58.1%, which puts us on the very top of the banking sector. This efficiency increase is the result of the growth in income, but also continuous search for the new, innovative cost streamlining solutions.

And, in the end, a segment that puts this story of a successful business year into a different perspective, are significant improvements within our Sparkasse team. The qualities that a good team must possess, such as professionalism, expertise, education, commitment and loyalty, were present in 2012 more than ever. This is seen in the growth of our client basis and their satisfaction with our services.
Our engagement in terms of creating benefits for the community, not only through different forms of support to the non-governmental sector and social entrepreneurship, but also our commitment to the economic growth of our clients, were one of the ways to strengthen positive perception of what we stand for in the public.
All this reinsures us that the Sparkasse Bank has claimed the place of the first choice both for the economy and private persons in Bosnia and Herzegovina and that it is surely stepping towards the top of the banking sector.

Dear shareholders, partners and clients, your cooperation, support and trust has made all these achievements possible, and on behalf of the Management and the whole Sparkasse Bank team, I would like to thank you for it.

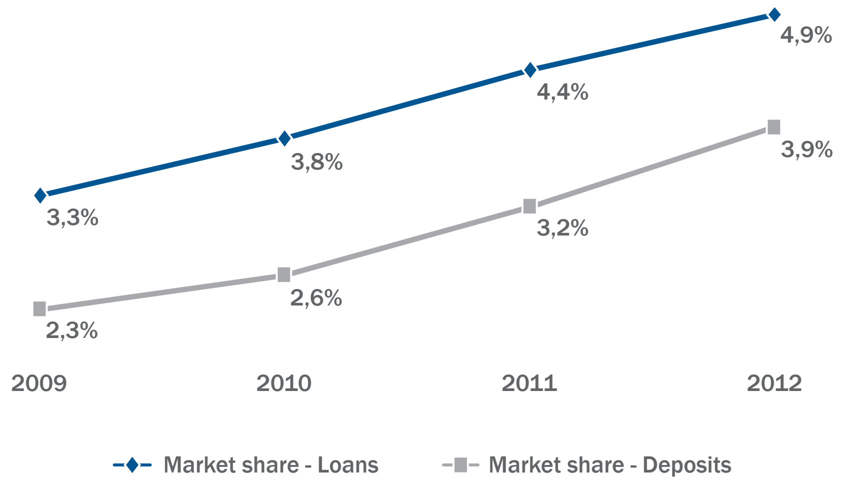
Sanel Kusturica
CEO

The first Housing Center that offers full financial service in real estate trades in the banking sector of Bosnia and Herzegovina. We also continually enhance variety of products offered to citizens, and we are now able to match all that competition has to offer and, what is more, provide a range of products unique on the market.

Business retrospective 2009-2012

Business retrospective 2009-2012

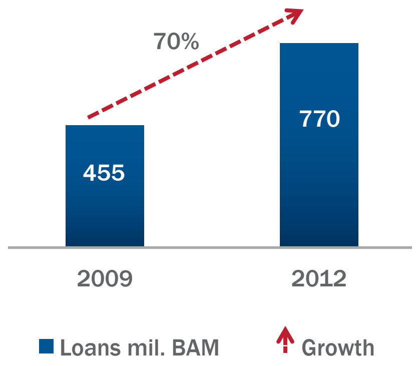
Continued market share growth



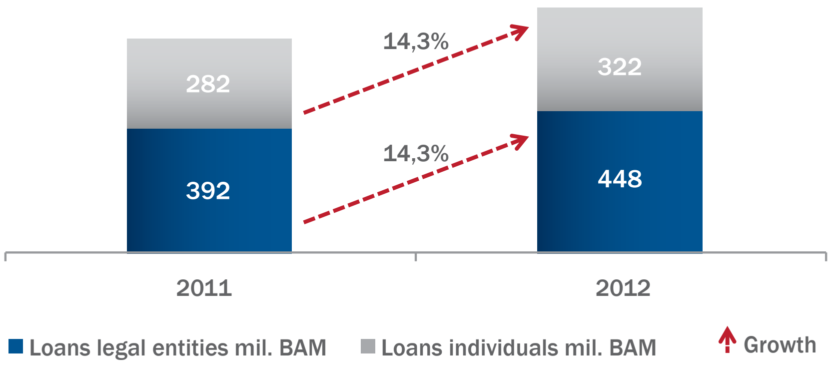
Source: CBBiH

Incentive to creating added value through active credit policy

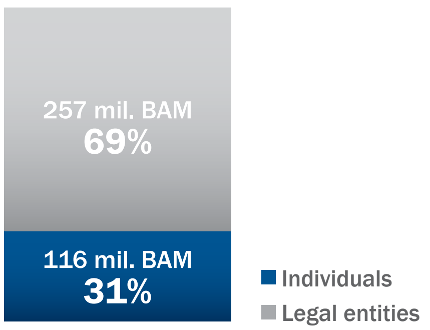
Loans development



Loans



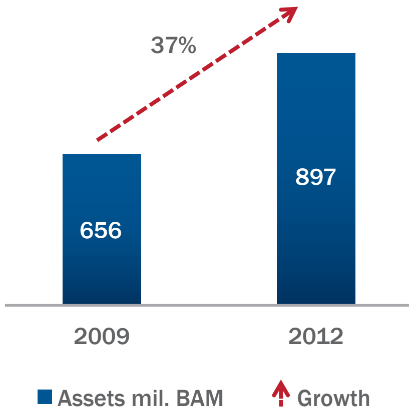
Placements 2012



Business retrospective 2009-2012

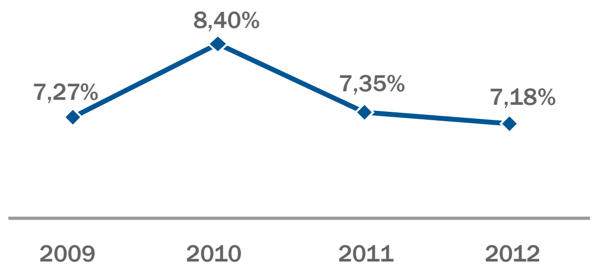
Healthy growth of assets

Sparkasse Bank's assets



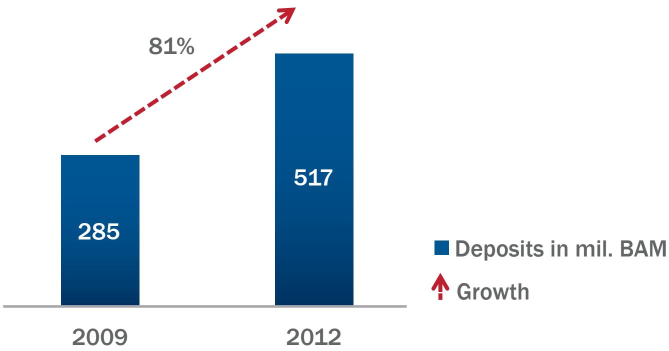
2012/2011.
Assets growth 10%

Development of NPL share in the overall credit portfolio



Deposit growth as a sign of building trust in the name of Sparkasse

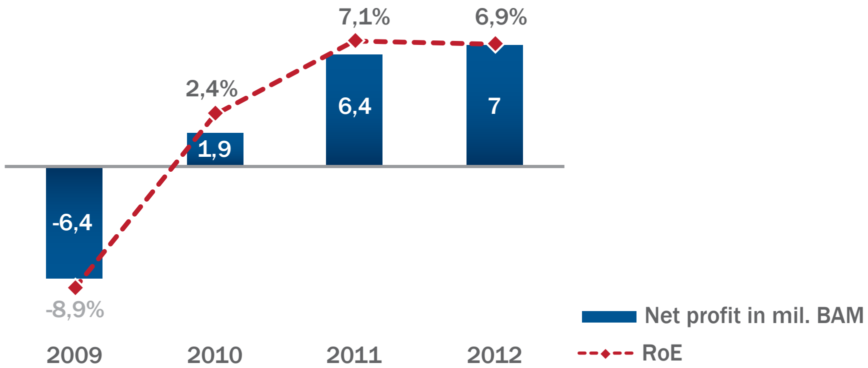
Sparkasse Bank's deposits



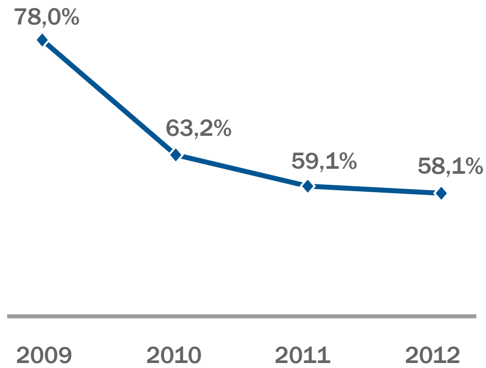
2012/2011
Deposit growth 24%
Citizens' savings growth 45%

Enhancing profitability and efficacy

Development of profit and return on capital



CIR development



As the implementation of the International Accounting Standards 39 (IAS 39) proceeds, we become increasingly ready for regulatory demands awaiting us in the future.

Benefit for the community

Our partners

Association Radio Kameleon – Open Network For Human Rights and Democracy

Beauty is in giving gifts

Aimed at helping schools and students from rural places of return in Bosnia and Herzegovina, the Association Kameleon – Open Network For Human Rights and Democracy, started the action "Pencil Writes With Its Heart".

This project is important as it develops empathy and sympathy among children for their peers who need help. Children from 27 primary schools in the Tuzla Canton collected stationary material needed for school and donated it to their returnee friends in rural areas of Bosnia and Herzegovina, thus showing that they, together with their teachers, are the strongest support and strength of these marginalized groups.

Each of the parcels contained a letter to the unknown recipient, which shows the importance and beauty of giving gifts.

"Pencil Writes With Its Heart" has been sponsored by the Sparkassde Bank, as we considered it extremely important to support the idea to develop and build consciousness on the importance of giving among children.

This project of the Association Radio Kameleon – Open Network For Human Rights and Democracy is certainly commendable, and the Association is always ready for cooperation with all who wish to start new assistance projects.

Association Radio Kameleon – Open Network For Human Rights and Democracy
Milana Jovanovića, 6
Tuzla 75 000
TEL/FAX: + 387 35 302 504
e-mail: foundation@kameleon.ba
www.kameleon.ba

Association For Support to People With Intellectual Difficulties in the Sarajevo Canton, Oaza

Oasis of good people

Association Oaza that gives support to people with intellectual difficulties is active in the Sarajevo Canton as a non-party, non-governmental, non-profit organization, founded in 1960, caring for 520 children and adults who need their support.

Life is my right

Numerous projects show that the objective of this association is to assist people with special needs on their way to social inclusion, through sports, to provide them adequate transportation to schools, physical therapies to people with multiple difficulties, and fulfill their free time in a good quality way through occupational and artistic workshops.

Ease their path through inclusion

Through support to education, the Association cares for children who attend special education facilities, but also many others included in regular schools with adjusted programs. The program of support to sport activities is aimed at promoting sports and the desire to compete as one of the way to be included in the society and develop motor skills through football, basketball, athletics, swimming, bowling and MATP program. Social inclusion and rehabilitation program is based on the desire to train persons with intellectual difficulties for independent life and work

When arts become reality

It is well known that arts are a way to escape reality. However, professional staff of Oaza that cares of the quality of life of children and persons with special needs has developed daily programs aimed at developing skills such as weaving, candle making, frame making and soap making, as well as music therapies to help these people live a nicer reality.

Sparkasse Bank has supported this program through internal voluntarism, where employees of all Sparkasse offices in Bosnia and Herzegovina collected and donated money to these little fighters for life. This was an opportunity to organize a party at the Importanne Center for all these children, which also helped them be included and integrated in the community.

Association Oaza
Teheranski trg do broja 6
Sarajevo 71 000
Tel: +387 33 766 526
Fax: +387 33 766 525
GSM: +387 62 466 438
www.oaza.ba

Association of parents and friends of persons with special needs SUNCE, Mostar

SUNCE as a guide through social integration

Association of parents and friends of persons with special needs Sunce is a regional non-governmental organization that works on solving the problems of persons with special needs and their families, both through legislation and other spheres of life.
This association has been established in August 1998 and it currently has 140 members with different physical and mental difficulties, often combined.

Mission and objective of this association is to improve quality of life for persons with special needs, through care, education and employment in workshops, as well as improving legislative environment.

Children with special needs have the need to develop their potentials and be independent

Sunce not only supports but also cares about the future of children with special needs. Large number of its members with mild and moderate retardation are included in the education programs in schools and workshops. A lot of its members completed secondary education, but the care of the Association does not stop there – by helping them on their way to economic independence, the Association supports their social engagement through creative sowing workshops, glass painting, production of decorative objects, working in laundry or kiosks, organization of humanitarian concerts and fashion shows, as well as summer holidays, camps, parties, etc. Only one third of participants is not included in educational activities, and a special emphasis is put on this very group. Taking care of the users with severe disabilities in the daily accommodation and field visits to bed-ridden users, the Association shows sympathies and cares of those who need that care the most.

Improved quality of life

It is important to say that the Association is not financed by either the Canton or the Township and that it is exclusively financed through projects and donations.

Employees of the Sparkasse Bank in Sarajevo and Graz have organized a humanitarian concert and all proceedings went to Sunce as support to the users in Mostar during winter. The idea of this project was to recognize, support and commend work of the users of this Association in laundry and kiosk as a way of integration and recognition in the society. Let us be the Sun that will shine on them!

Association Sunce
Južni logor bb
88 000 Mostar
Tel/Fax: +387 36 577 707
e-mail: sunce.mostar@yahoo.com
www.sunce-mostar.com.ba

Benefit for the community

Our partners

NGO Altruists for assistance to people with disabilities, SVJETLO

All people deserve equal chance

Non-governmental organization ALTRUISTA SVJETLO was established in 2005 by those who believed that ALL PEOPLE DESERVE EQUAL CHANCE. Mission and objective of this organization are expressed through their activism towards social acceptance of persons with difficulties and raising awareness among young people with difficulties of their own worth and social responsibility, thus making them useful to themselves and to their communities.

Building an equal chance society

One of their achievements they treasure most is that young people with difficulties are not passive and waiting for the assistance of others, but work as volunteers, active and responsible citizens. Some of NGO Svjetlo's actions actively participated by the young people with difficulties are environmental projects in Grbavica, "Let's clean the Earth in one day", participation in humanitarian concert "Children for the poor", donating proceedings from handicraft products to the soup kitchen "Meals on Wheels", donating proceedings from five exhibitions of handicraft products to the families of children whose parents are persons with difficulties, etc.

Besides contributing to the society in this way, members of this Association have achieved numerous sport results, competing in 29 disciplines of swimming, athletics, bowling, table tennis and basketball. Twenty four athletes of this association have won 26 medals only in 2012 – 14 gold medals, 3 silver medals and 9 bronze medals.

The vision of this association is to remove all barriers that lead to discrimination and social exclusion, and members of the Association Svjetlo have proven it possible.

Sparkasse Bank regularly buys greeting cards made by members of this association – people with disabilities – produce, supporting the idea that people with special needs want to be productive and useful to themselves and to the community.

NVO Altruista Svjetlo
Grbavička br. 22
Sarajevo 71000
Tel/Fax: +387 33 711 535
GSM: +387 61 555 295
e-mail: svjetlo@svjetlo.ba

Humanitarian fond Sparkasse Bank Friend For Life

Children are the strongest army

Sparkasse Bank recognizes the strength of the society in education, knowledge and science, at the same time taking care of the most vulnerable, therefore in September 2011, it established a humanitarian fond for the scholarships which is primarily intended to support students from marginalized groups complete their education, either primary or secondary.

This fond is financed by percentage of the fees the Bank charges when issuing new Sparkasse packages and all purpose credits with guarantees.

As every child deserves good education, this project is directed towards the support to people who are on the social margins of our society and who need our help the most: people with special needs, socially vulnerable, children without parents, people with disabilities and minorities, but it is also at the disposal to organizations who are aimed at financing/co-financing humanitarian/socially responsible projects.

Within this project of support to primary and secondary school children in their education, Sparkasse Bank regularly awards scholarships from the Friends For Life Fund, that currently supports four students who are on their way towards their diplomas.

Applications for these scholarships may be filled by parents, guardians or representatives of the4 organization/project that takes care of the student, and the application form is available at the Sparkasse Bank's internet site – www.sparkasse.ba

Kristina Tomić, our scholarship recepient from Derventa

Emergency fond for entrepreneurship of women of Association INFOHOUSE and Foundation CURE

We don't want carnations, we want jobs!

In 2011 Association INFOHOUSE and Foundation CURE started the initiative to establish emergency fond for entrepreneurship of women as a pilot project, with the goal to finance the best project designed by women and aimed at their self-employment, with the motto: "We don't want carnations, we want jobs!" That year nine entrepreneurship ideas from different towns and different industries were supported within this project.

The idea behind this project was to give donations thus supporting commitment of women to start their own business thus helping themselves and being socially engaged and useful.

In 2012, the Sparkasse Bank, as the main sponsor of this project, 15 unemployed women able to start their own business and become empowered, showing that we do not have to buy ideas and originality, but only promote our own.
Sparkase Bank promoted these and some other creative ladies and their work in its annual calendar.

Anica Petrović weaves traditional handmade products. If you want to introduce elements of tradition into your interior, golden hands of this lady can produce them.
Prozor-Rama, S. Radića, +38763951925

Jadranka Trifković produces traditional costumes, weaves and embroiders. Her products are the best combination of tradition and wearable fashion, preserving cultural traditions of Bosnia and Herzegovina.
Brčko, Lučka br. 1, +38765764338

Persa Lazić does not wait for employment, buts desires to employ herself by producing and selling jewelry. Her resources are her bravery, creativity and sense for esthetics, and her final products would be wished by any women.
Zvornik, Sime Perića br. 4, +38765848175

Edina Laković produces individually decorated objects and clothes. She skillfully turns ordinary things into beautiful and unique.
Goražde, Hajra Lakovića br. 1, +38761360595

Jelena Petronjev produces fashion accessories. Her hand-made accessories and home decoration objects will be liked by the bold and original, as she herself is.
Banja Luka, Vladimira Rolovića br. 47, +38765672928

Nedžida Mehanović turns her fantasy into jewelry that can meet the needs of even the most demanding. She just needs some assistance to become her own employer.
Sarajevo, Trg sarajevske olimpijade br. 19, +38762122655

There is certainly many more women who have the idea and skills to implement them and provide economic safety for their families, make themselves useful and happy, but lack funds to start their own business. They do not want flowers, they want to work, and that should be made possible.

Contacts for future projects, Sarajevo:
Foundation CURE: +387 33 264 420
Association INFOHOUSE: +387 33 200 538


Anica Petrović


Jadranka Trifković


Persa Lazić


Edina Laković


Nedžida Mehanović

Association “Athlete” Recreation Center Doboj

Through sports to healthy life

Association ATHLETE Recreation Center Doboj is an association that promotes healthy life through sports. A segment of the activities of this association is therapeutic work with children with special needs that has two objectives:

- development of their motor and sport skills
- integration of children with special needs into communities of their peers who do not have developmental difficulties.

One of the projects that Athlete physical therapists and experts used to put the children with special needs with their peers from Primary School “Vuk Stefanović Karadžić” from Doboj is “Together We Are Stronger”. About 30 children, both “special” ones and their friends from primary school, spent their time together in games and exercises designed especially to cure and prevent deformities. In 2012 this socially useful initiative was supported by the Sparkasse Bank believing that it makes sense to fight for social inclusion of often neglected people with special needs into life events that are often not so accessible to them. An important factor that contributed to the selection of this project partner is the fact that the projects are carried out among the youngest who are in time taught that their peers who are “special” deserve a place among them and that they do not need to be isolated.

This is only one of the projects that this association carries out following its mission, and there will be many more in the future for sure, as well as place to include other companies ready to support us.

Association “Athlete” Recreation Centre, Doboj
Kralja Petra I, 19/19
Doboj
Tel.: +387 66 000 863
Rekreacioni centar Athlete

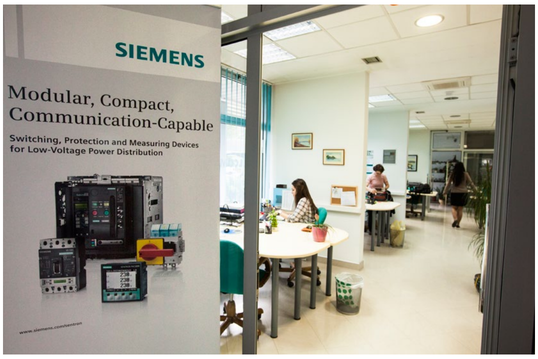
Through the continuous ehnacement of the ATM network, Sparkasse Bank with almost 80 automated teller machines all over Bosnia and Herzegovina is fifth in the country by the number of ATMs and makes the only bank with multifunctional ATMs, for withdrawals, deposits and cash conversion.

Reliability creates friendships

Our clients

Elcom - Solution in Automation

The only Bosnian company that develops automatic system solutions in Europe and in the world



ELCOM Ltd. is a company that is a match to globally known Siemens, Alstom and ABB and that develops and produces systems for the needs of industry, energy production and mining.

This is one of those Bosnian companies that that breaks the myth that the economy in Bosnia and Herzegovina relies on primary and secondary sector and that the high-quality service providers will be best found outside the country.

This family business owned by electrical engineer Džemo Mustafić offers highly sophisticated equipment and automated management equipment, primarily for industry and energy sectors. This is the only company in Bosnia and Herzegovina that is active in this field in Europe and in the World. The company was established in 1992, and since 2003 it has managed to enlarge its team to 70 staff members and to generate annual revenue of 5 mil KM in 2012.

Highly sophisticated intellectual services

Considering the fact that it functions on the engineering principles, this company with its team of engineers and technicians specialized in process automatics takes over the entire process: technical and technological need identification, detailed HW/SW design, SCADA system programming with the complete project solutions, equipment production and operation, and, finally, maintenance.

Certificated Siemens Solution Partner in Automation

Elcom project solutions are mainly based on HW/SW products and modules produced by Siemens that Elcom has had cooperation with ever since 1997, and became a certified Siemens Solution Partner Automation. Quality management system ISO 9001:2008 has been in place in this company ever since 2005.

Solution Partner Automation SIEMENS

TÜV SÜD Management Service

ISO 9001:2008

Reliability creates friendships

Our clients

ELCOM

Džemo Mustafić, owner

"As we are the only company in Bosnia and Herzegovina that is active in this field on the level of European and global companies, we cannot find experienced experts on the Bosnian market, so in principle, we hire young engineers who we invest our knowledge and expertise in. After an education process that lasts for almost five years, after which we can surely say that we have built a good expert in this field. Practically, we work on the kind projects that very few work on, thus producing experts that are rare.

So far we have worked on a dozen of complex projects in the energy sector and industry in Bosnia and Herzegovina, as members or leaders of consortia hired by, mainly, foreign investors, so we are, in theory, exporters of services and products in a highly complex and specific field.

Projects of this kind in world economies are treated as development endeavors that have priority state support. Bosnia and Herzegovina still has huge unused space for projects of this kind, and business dynamics is often slow and difficult. Therefore it is even more important to have partner business bank that will professionally and understandingly follow the needs of your business. We have found such a partner in the Sparkasse Bank."

References and projects

That this is a highly sophisticated technical and technological Bosnian company is confirmed by capital references. In consortia with large international companies Alstom Masy and Alstom Mannheim, Elcom Tuzla has built a very complex automatic system that manages the whole Block 6 of 230 MW in Tuzla Power Plant, and built a whole new "Stacker/Reclaimer" machine for the needs of the Tuzla Power Plant. The reference list also includes general reconstruction of the excavator for surface excavations in Dubrave segment of the Kreka mine in Tuzla, as well as the whole range of other machines for the needs of energy, mining and industrial sector.

Automation of the Block 6 (230 MW) in Tuzla Power Plant

Until 2012, Block 6 of the Tuzla Power Plant was controlled by an outdated automatic system, where many operations were performed manually. Elcom has turned the control room into a state of the art modern center with computers and monitors for a completely automated control and block management.

Automation and production of machinery for the needs of mining and energy production

Development and construction of the automatic control systems on the machines for transportation and disposal of coke in GIKIL Lukavac, coal in KEK Kosovo, and coal transportation systems on PP Tuzla, are among the Elcom projects.

Domestic industrial giants that worked in this field before the war in the country and abroad, no longer exist. Therefore it is difficult to believe that a totally automated gigantic machine on the photo here is practically made in BiH. However, it is – made by Elcom.

Whole new Stacker/Reclaimer put into operation in Tuzla Power Plant in 2012.

ThermoFLUX Ltd Jajce - hot water boilers and fire places.

Eco solutions for heating

ThermoFLUX Ltd Jajce, managed by Ladan family since 2007, produces hot water boilers and fire places.

Tomislav Ladan started his career with the production of bathroom radiators showing the initiative, courage and creativity necessary for small and medium entrepreneurship – he found space on the market to place automatic pellet fire places, targeting customers interested in inexpensive and environmentally friendly heating.

70 new jobs in the period 2010-2012

Considering the fact that the domestic market for sure was not ready for this product at the beginning, ThermoFLUX made sure to have contacts on the foreign market, and in the mean time ensured 50% of its products to be exported outside the region. In the period between 2010 and 2012 the company saw accelerated expansion, increasing its annual output from 330 to 2,500 pieces of boilers. This production expansion was followed by strengthening of the team, both in terms of quality and in terms of quantity, so the company hired 70 new employees in only two years.

Products that guard the environment

As our stoves and fire places that use pellet as fuel are considered environmentally friendly, they are subsidized in several countries, such as Germany and Slovenia. This practically means that the buyers of our products get subsidies of up to 50% for purchase of these stoves and fire places.

Quality guaranteed by the Technical University in Vienna

ThermoFLUX products are tested by the Technical University in Vienna, and the company has TIC certificates for management in line with the ISO 9001:2008.

Reliability creates friendships

Our clients

Tomislav Ladan, owner

“We live in the time when fossil fuels, oil and gas, are getting more expensive and less available, so that renewable energy sources, such as wooden pellet, are becoming increasingly present on our market. Carried by this motive, ThermoFLUX constantly enhances its technologies and develops new products.

With the desire to bring our products close to perfection, we cooperate with experts from abroad, and our employees get training on European institutes. We invested into education and new technologies, accepted creative ideas and were brave enough to enter completely new technological processes, placing products for which there was relatively little demand. In the meantime, ThermoFLUX Ltd. has become the leading producer of pellet boilers and fire places in Bosnia and Herzegovina. Certainly, economic success is our priority, as our company provides income for 90 employees, and it is our plan to continue growing with this pace. Furthermore, our plan is to build awareness of renewable energy and the need to preserve the environment, which is insufficiently developed in our country.”

Katarina and Tomislav Ladan, married couple running the company

Reliability creates friendships

Our clients

Elvedina Vugić,
master of electrical engineering

A bank has to be reliable

Mrs Elvedina Vugić is, as an individual, a user of the entire range of services of Sparkasse Bank since 2010 – from transaction to credit products.

“I have worked in the field of telecommunications for 17 years for an international company. Both these segments of my career demand high degree of professionalism, meticulousness, commitment, initiative, maybe even perfectionism. Eventually, this becomes a part of what you are, creating what you expect from your environment. One can freely say that I belong to the category of high demand clients, especially in situations when I feel that my expectations are not met in an adequate way. I was looking for a bank that pays attention to individual demands of each client, and in 2010 I finally started working with the Sparkasse Bank. In my opinion, the critical factor for cooperation with a bank is its reliability. It means meeting promises unexceptionally, of course along with professionalism and expertise. I have to admit that this kind of relationship can only be built based on personal contacts and trust in the person who advises you, and I have to use this opportunity to mention Mrs. Samira Isović, deputy manager of the Sarajevo branch, who possesses all these qualities.”

Sparkasse bank d.d.

Financial statements

for the year ended 31 december 2012

Sparkasse bank d.d.

Financial statements

for the year ended 31 december 2012

Contents

Management Board report

The Management Board is pleased to submit its report together with the audited financial statements for the year ended 31 December 2012.

Review of operations

The result for the year ended 31 December 2012 of the Bank is set out in the statement of comprehensive income on page 5.

Supervisory Board, Management Board and Audit Committee

During the course of 2012 and up to the date of this report, the Supervisory Board was as follows:

Supervisory Board

Sava Dalbokov	President
Franz Kerber	Member (until 22.06.2012)
Gerhard Maier	Member (from 22.06.2012)
Hamdija Alagić	Member
Georg Bucher	Member
Renate Ferlitz	Member

As of 31 December 2012 the Management Board comprised 4 executive directors. The persons who served as executive directors during the year and up to the date of this report are as follows:

Management Board

Sanel Kusturica	Director
Nedim Alihodžić	Executive Director
Zahida Karić	Executive Director
Amir Softić	Executive Director

Audit Committee

Samir Omerhodžić	President
Walburga Seidl	Member
Guenter Schneider	Member
Slaviša Kojić	Member
Manfred Lackner	Member

On behalf of the Management Board:

Sanel Kusturica
Director

Responsibilities of the Management and Supervisory Board for the preparation and approval of the annual financial statements

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

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

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

The financial statements set out on pages 36 to 80 were authorised by the Management Board on 12 March 2013 for issue to the Supervisory Board and are signed below to signify this.

Signed on behalf of the Management Board

Sanel Kusturica
Director

Zahida Karić
Executive Director

Sparkasse Bank d.d.
Zmaja od Bosne 7
71000 Sarajevo
Bosnia and Herzegovina

12 March 2013

Independent Auditor's report

To the Shareholders and Board of Directors of Sparkasse bank d.d.

We have audited the accompanying financial statements of Sparkasse bank d.d. (the "Bank") which comprise the statement of financial position as of 31 December 2012 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, 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 thesefinancial statements in accordance with Law on accounting and auditing in the Federation of Bosnia and Herzegovina, the Law on Banks and Federal Banking Agency decisions, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with Law on accounting and auditing in the Federation of Bosnia and Herzegovina, the Law on Banks and Federal Banking Agency decisions.

PricewaterhouseCoopers d.o.o. Sarajevo

PricewaterhouseCoopers

12 March 2013

„PRICEWATERHOUSECOOPERS" D.O.O. SARAJEVO

Alida Selimović, certified auditor

Selimović Alida

Statement of comprehensive income

	Note	2012	2011
Interest and similar income	6	54,870	47,997
Interest expense and similar charges	7	**(18,048)**	**(14,070)**
Net interest income		36,822	33,927
Impairment losses	14	**(13,198)**	**(11,583)**
Net interest income after provisions for impairment		23,624	22,344
Fee and commission income	8	14,272	12,708
Fee and commission expense	9	(1,793)	(1,609)
Net foreign exchange gains	10	1,515	1,343
Other operating income	11	1,019	1,600
Personnel expenses	12	(15,898)	(15,208)
Depreciation and amortisation expenses	25,26,27	(2,907)	(2,327)
Other administrative expenses	13	(13,884)	(13,121)
Release of other provisions	15	1,390	34
Recoveries (previously written-off items)	16	479	700
PROFIT BEFORE INCOME TAX		**7,817**	**6,464**
Income tax expense	17	(807)	(73)
PROFIT FOR THE YEAR		**7,010**	**6,391**
Other comprehensive income:			
Gain/(Loss) on available for sale financial assets		705	(281)
TOTAL COMPREHENSIVE INCOME		7,715	6,110
Earnings and diluted earnings per share (in BAM)	18	**8.11**	**7.81**

Notes on pages 40 to 80 form an integral part of these financial statements.

Statement of financial position

	Note	31 December 2012	31 December 2011
ASSETS			
Cash and cash equivalents	19	57,764	33,454
Obligatory reserve with the central bank	20	53,290	46,706
Placements with and loans and advances to other banks	21	18,183	60,476
Loans and advances to customers	22	702,070	618,296
Financial assets available for sale	23	23,883	17,261
Other assets	24	4,325	1,195
Property and equipment	25	28,937	28,920
Investment property	26	6,180	7,123
Intangible assets	27	2,636	2,670
TOTAL ASSETS		**897,268**	**816,101**
LIABILITIES			
Current accounts and deposits from banks	28	263,832	282,043
Current accounts and deposits from customers	29	517,347	418,156
Borrowings	30	2,541	6,713
Other provisions	31	3,984	5,372
Other liabilities	32	4,281	6,249
Total liabilities		**791,985**	**718,533**
SHAREHOLDERS' EQUITY			
Share capital	33	86,473	86,473
Share premium		3,000	3,000
Statutory reserves		7,667	2,033
Regulatory reserves		790	33
Revaluation reserves – AFS		343	(362)
Retained earnings		7,010	6,391
Total shareholders' equity		**105,283**	**97,568**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		897,268	816,101

Notes on pages 40 to 80 form an integral part of these financial statements.

Statement of changes in equity

	Share capital	Share premium	Statutory reserves	Regulatory reserves	Revaluation reserves – AFS	Retained earnings	Total
Balance as at 1 January 2011	**76,473**	**3,000**	**125**	**33**	**(81)**	**1,908**	**81,458**
Closed share issue	10,000	-	-	-	-	-	10,000
Allocation of 2010 result	-	-	1,908	-	-	(1,908)	-
Profit for the year	-	-	-	-	-	6,391	6,391
Other comprehensive income for 2011	-	-	-	-	-	-	-
AFS revaluation	-	-	-	-	(281)	-	(281)
Balance as at 31 December 2011	**86,473**	**3,000**	**2,033**	**33**	**(362)**	**6,391**	**97,568**
Balance as at 1 January 2012							
Closed share issue	-	-	-	-	-	-	-
Allocation of 2011 result	-	-	5,634	757	-	(6,391)	-
Profit for the year	-	-	-	-	-	7,010	7,010
Other comprehensive income for 2011	-	-	-	-	-	-	-
AFS revaluation	-	-	-	-	705	-	705
Balance as at 31 December 2012	**86,473**	**3,000**	**7,667**	**790**	**343**	**7,010**	**105,283**

Notes on pages 40 to 80 form an integral part of these financial statements.

Cash flow statement

	Note	2012	2011
OPERATING ACTIVITIES			
Profit before tax		7,817	6,464
Adjustments:			
Depreciation and amortisation	25,26,27	2,907	2,327
Loss on disposal of fixed assets		4	81
Release of provisions	31	(1,388)	70
Increase in impairment allowances	14	13,198	11,583
Cash flows from operating activities before changes in operating assets and liabilities		**22,538**	**20,525**
Increase in obligatory reserve with the Central Bank		(6,584)	(2,942)
Decrease in placements with and loans and advances to other banks		42,085	92,059
Increase in loans and advances to customers		(96,563)	(124,890)
Increase / (decrease) in other assets		(3,316)	12
(Decrease) / increase in deposits from banks		(18,212)	16,710
Increase in deposits from customers		99,191	89,911
(Decrease) / increase in other liabilities		(2,232)	2,308
NET CASH INFLOW FROM OPERATING ACTIVITIES		**36,907**	**93,693**
Income tax paid		(543)	(62)
Net cash flow from operating activities		**36,364**	**93,631**
Cash flow from investing activities			
Purchase of financial assets available for sale		(5,931)	(6,515)
Purchase of property and equipment	25	(1,817)	(1,444)
Sale / Purchase of investment property	26	815	(922)
Purchase of intangible assets	27	(949)	(859)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(7,882)**	**(9,740)**
Cash flow from financing activities			
Repayment of borrowings		(4,172)	(88,085)
Issued share capital		-	10,000
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		**(4,172)**	**(78,085)**
Net increase in cash and cash equivalents		**24,310**	**5,806**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**19**	**33,454**	**27,648**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**19**	**57,764**	**33,454**

Notes on pages 40 to 80 form an integral part of these financial statements.

1. Reporting entity

SPARKASSE Bank d.d. (the 'Bank') was registered at the competent court in Sarajevo, registration number U/I-1291/99 on 9 July 1999. The Bank was granted a banking licence by the Banking Agency of the Federation of Bosnia and Herzegovina (the "Agency" or "FBA") on 28 July 1999, registration number 01-376/99. The Bank's registered address is in Sarajevo, Zmaja od Bosne 7. Major shareholder of the Bank is Steiermarkische Bank und Sparkassen AG, Graz Austria with 97% of shares. Ultimate controlling party is Erste Group Austria.

Principal activities

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

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

Financial crisis impact

General information

Recent volatility in global and Bosnia and Herzegovina financial market

The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe and elsewhere. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

Impact of the global economic crisis on clients of the Bank

The key impact of the economic crisis is reflected in the reduction of consumption and investment both in Bosnia and Herzegovina and at the global level, which lead to a decrease in demand, and which continues to result in a reduction in the volume of production and services. Decrease in economic activity impacts the capacity of clients to repay their debt and requires from the Management to adopt more conservative business projections related to debt repayment by clients in future periods.

Management has applied the revised estimates of expected future cash flows related to the evaluation of impairment, and maintained the focus of its strategy on new placements and to managing existing customers and existing placements in order to preserve the capital.

Liquidity management

In spite of the economic crisis the Bank maintained adequate level of liquidity throughout 2012. Concerning the liquidity, the Bank has support from the parent Bank, Steiermarkiche Bank und Sparkassen AG.

Marketability of collateral

The lower possibility of repayment of the debt of the client from their regular cash flow leads to the need for intensive collateral management of the Bank. Assessment of collateral values, particularly business property, is performed annually, with special emphasis on the assessment of property values that are in construction and those that are just completed, where the valuation performed by a locally certified appraiser is reviewed by the Bank.

2. Basis for preparation and presentation of financial statements

(a) Basis for preparation

These financial statements have been prepared under the Law on Accounting of the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of Bosnia and Herzegovina, no. 83/09), the Law on Banks and Federal Banking Agency decisions. Based on the Law on Accounting and Auditing of the Federation of Bosnia and Herzegovina, standards applied in the Federation of Bosnia and Herzegovina are International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), which are translated to Bosnian language by the authorized accounting body.

The Bank applies all the IFRS and the amendments and interpretations which were published by the International Federation of Accountants (IFAC) and the International Accounting Standards Board (IASB) and translated into Bosnian in the Federation of Bosnia and Herzegovina ("FBiH") as of 31 December 2009. Therefore, these financial statements do not comply with all requirements of IFRS.

(a) New and amended standards adopted by the Bank

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Bank.

(b) New standards, amendments and interpretations issued but not effective or early adopted for the financial year beginning 1 January 2013.

- **IFRS 9, Financial Instruments Part 1: Classification and Measurement.** IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:
  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
  - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted

- **IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),** replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.
- ***IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),*** replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.
- **IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),** applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in Company activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.
- ***IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),*** aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.
- ***IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013),*** was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements.

2. Basis for preparation and presentation of financial statements (continued)

- ***Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012),*** changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two Companys, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Company expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.
- ***Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013),*** makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income.
- ***Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013).*** *The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.*
- ***Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).*** The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the off-setting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.
- ***Improvements to International Financial Reporting Standards (issued in May 2012 and*** effective for annual periods beginning 1 January 2013) which consists of improvements to five standards
- ***Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12*** *(issued in June 2012 and effective for annual periods beginning 1 January 2013), which clarify the transition guidance in IFRS 10 "Consolidated Financial Statements" and provide additional transition relief from reporting comparative information under IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities".*
- ***Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards - Government Loans"*** *(issued in March 2012 and effective for annual periods beginning 1 January 2013), which give first-time adopters of IFRSs relief from full retrospective application of accounting for certain government loans on transition.*
- ***IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine",*** which considers when and how to account for the benefits arising from the stripping activity in mining industry.
- ***Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment*** entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014), which introduced a definition of an investment entity which will be required to carry its investee subsidiaries at fair value through profit or loss.

Unless otherwise described above, the new standards and interpretations, once adopted, are not expected to affect significantly the Bank's financial statements.

(b) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency').

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

The Central Bank of Bosnia and Herzegovina ("CBBH") implemented a currency board arrangement aligning BAM to EURO at an exchange rate of EUR 1: BAM 1.95583 throughout 2012 and 2011. This is expected to continue in the foreseeable future.

(c) Basis of measurement

The financial statements are prepared under historical cost convention except for loans, receivables and borrowings which are presented at amortised cost and available for sale financial assets which are presented at fair value.

(d) Use of estimate and judgements

In preparing the financial statements, management has made judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosures of commitments and contingencies at the balance sheet date, as well as amounts of income and expense for the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and information available at the date of the preparation of the financial statements, the result of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

3. Significant accounting policies

(a) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income. Non-monetary assets and items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction.

Exchange rates:

	31 December 2012	31 December 2011
	BAM	BAM
EUR 1	1.95583	1.95583
USD 1	1.48360	1.511577

(b) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within interest income and interest expense in the income statement.

Interest income and expense are accounted for on an accrual basis. Loan origination fees are deferred and amortized over the life of the loan using the effective interest rate method.

(c) Fee and commission income and expense

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

(d) Dividend income

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

(e) Lease payments

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

(f) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax expense is based on taxable income for the year. Taxable income differs from net income as reported in profit or loss 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 at the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Bank has the ability and intention to settle on a net basis.

(g) Financial instruments

Classification

The Bank classifies its financial instruments in the following categories: loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets, held to maturity investments and other financial liabilities. The classification depends on the purpose for which the financial assets and liabilities were acquired. The management determines the classification of financial assets and liabilities upon initial recognition and re-evaluates this classification at every reporting date. At the balance sheet date the Bank did not have held-to-maturity investments or financial assets at fair value through profit and loss.

(i) Loans and advances to customers

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables arise when the Bank provides money to a debtor with no intention of trading with the receivable and include placements with and loans and advances to other banks, loans and advances to customers and balances with the central bank. Loans and advances to customers are carried at amortised cost.

3. Significant accounting policies (continued)

(ii) Available for sale financial assets (AFS)

Financial assets available for sale are all other assets that are not classified in any other groups.

Financial assets available for sale can be reclassified as assets held to maturity if there is a proof that Bank intends and is capable of holding to an asset to maturity date.

(iii) Other financial liabilities

Other financial liabilities comprise all financial liabilities.

Recognition

Loans and receivables and other financial liabilities are recognised when advanced to borrowers or received from lenders.

Initial and subsequent measurement

Financial instruments are measured initially at the fair value of the consideration given.

Loans and receivables and other financial liabilities are subsequently measured at amortised cost.

Financial assets available for sale are initially recognized at cost. These assets are subsequently measured at fair value and difference is recognized as revaluation reserve in equity.

Derecognition

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 continues to recognise the financial asset.

In case of derecognition of assets available for sale, the cumulative gain or loss previously recognized in equity is transferred to statement of income.

Financial liabilities are derecognised when they have been redeemed or otherwise extinguished. If the terms of a financial liability change, the Bank will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

Impairment of financial assets

(a) Loans and advances

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that impairment of a loan or a portfolio of loans has occurred which influences the future cash flow of the financial asset(s), the respective losses are immediately recognised. Impairment losses on loans and receivables are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans. Depending on the size of the loan, such losses are either calculated on an individual loan basis or are collectively assessed for a portfolio of loans. The carrying amount of loans and receivables is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. We do not recognise losses from expected future events.

Individually assessed loans and advances

For individually significant loans (exceeding BAM 100,000), it is assessed whether objective evidence of impairment exists, i.e. any factors which might influence the customer's ability to fulfil his contractual payment obligations towards the bank:

- delinquencies in contractual payments of interest or principal
- breach of covenants or conditions
- initiation of bankruptcy proceedings
- any specific information on the customer's business (e.g. reflected by cash flow difficulties experienced by the client)
- distressed restructuring

Additionally, the aggregate exposure to the client and the realizable value of collateral held are taken into account when deciding on the allowance for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows discounted at the financial asset's original effective interest rate (specific impairment). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

3. Significant accounting policies (continued)

Collectively assessed loans and advances

There are two cases in which loans are collectively assessed for impairment:

- individually insignificant loans that show objective evidence of impairment;
- the group of loans which do not show signs of impairment, in order to cover all losses which have already been incurred but not detected on an individual loan basis.

For the purposes of the evaluation of impairment of individually insignificant loans, the loans are grouped on the basis of similar credit risk characteristics, i.e. according to the number of days they are in arrears. Arrears of 90 or more days are considered to be a sign of impairment. This characteristic is relevant for the estimation of future cash flows for the so defined group of such assets, based on historical loss experiences with loans that showed similar characteristics.

The collective assessment of impairment for individually insignificant loans (lump-sum impairment) and for unimpaired loans (portfolio-based impairment) belonging to a group of financial assets is based on a quantitative analysis of historical default rates for loan portfolios with similar risk characteristics in the individual subsidiaries (migration analysis).

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether individually significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (impairment for collectively assessed loans).

Reversal of impairment

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 by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Writing off loans and advances

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowance for loan impairment in the income statement.

(b) Financial assets carried at cost

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

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

(c) Financial assets available for sale

The Bank has to assess if there is objective evidence that financial assets available for sale are impaired. When a decline in the fair value of an available for sale financial assets determines that these financial assets are impaired, the cumulative loss that has been recognized directly in equity shall be removed from equity and recognised in profit or loss. Impairment losses recognized in profit or loss for an investment in

an equity instrument recognized as available for sale shall not be reversed through profit or loss. For debt instruments the impairment loss shall be reversed through profit or loss.

Other fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

3. Significant accounting policies (continued)

Specific financial instruments

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with the central bank, current accounts with other banks and items in the course of collection.

(ii) Placements with, and loans and advances to banks and other financial institutions

Loans and advances to banks are classified as loans and receivables and are carried at amortised cost less impairment allowances.

(iii) Loans and advances to customers

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

(iv) Investment in other companies

Investments in other companies are stated at cost less impairment allowances.

(v) Debt securities

Debt securities are stated at fair value less impairment allowances.

(vi) Borrowings

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

(vii) Current accounts and deposits from banks and customers

Current accounts and deposits are classified as other liabilities and initially measured at fair value plus transaction costs, and subsequently stated at their amortised cost using the effective interest method.

(h) Property and equipment

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

Properties in the course of construction are carried at cost, less impairment loss, if any. Depreciation commences when the assets are ready for their intended use.

Estimated useful life were as follows:

	2012	2011
Buildings	33-50 years	33-50 years
Computers	5 years	5 years
Vehicles	6 years	6 years
Furniture and other office equipment	5-10 years	5-10 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

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

3. Significant accounting policies (continued)

(i) Investment property

Investment property, which is property held to earn rental income and/or for capital appreciation, is measured at its cost, including transaction costs. Depreciation commences when the assets are ready for their intended use. Depreciation is calculated based on the estimated useful lives of those assets, that is 50 years for buildings (50 years in 2011).

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Investment property held under an operating lease is recognised in the Bank's statement of financial position at its cost less accumulated depreciation and any accumulated impairment losses.

(j) Leased assets

Where the Bank is the lessor

A lease is defined as being an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time. A lease may be classified as finance or an operating lease.

Finance leases are leases where substantially all the risks and rewards of ownership of an asset are transferred to the lessee. Operating leases are all leases other than finance leases.

In operating lease the Bank recognises the assets which are under the operating lease in its balance sheet according to the nature of the asset. Income from operating lease is recognised in income on a straight-line basis over the lease term. Costs, including depreciation, incurred for earning the lease income, are recognised as an expense. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amounts of the leased asset and recognised as an expense over the lease term on the same basis as the lease income. The depreciation policy for depreciable leased assets is consistent with the regular depreciation policy of the Bank for similar assets.

Other leases are operating leases and, except for investment property, the leased assets are not recognised in the Bank's statement of financial position.

Where the Bank is the lessee

The Bank leases certain property, plant and equipment. Leases of property, plant and equipment, where the Bank has substantially all the risks and rewards of ownership, are classified as finance leases. The Bank has no finance leases.

Leases where the significant portion of risks and rewards of ownership are not retained by the Bank are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Please refer to Note 37 for commitments under operating leases.

(k) Intangible assets

Intangible assets that are acquired by the Bank, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. The estimated useful lives are 5 years (20%).

Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(l) Employee benefits

Short term benefits

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

3. Significant accounting policies (continued)

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

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

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

The cost of providing benefits is determined using the projected unit credit method. The project unit credit method considers each period of service giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation The obligation is measured at the present value of estimated future cash flows using a discount rate of 7% per annum that is similar to the estimated interest rate on government bonds, where the currency and terms of the government bonds would be consistent with the currency and estimated terms of the benefit obligation.

(m) Provisions

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

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

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

(n) Share capital

Share capital

Share capital comprises ordinary shares and is stated in BAM at nominal value. Any profit for the year after appropriations is transferred to reserves.

Dividends

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

(o) Statutory reserve

A statutory reserve has been created in accordance with company law of FBiH, which requires 10% of the profit for the year to be transferred to this reserve until statutory reserves reach 25% of issued share capital. If the statutory reserves do not reach 25% of issued share capital within 5 business years, a public limited company is required to increase its transfer to this reserve to 20% of its profit for the year at the end of the fifth and any following business year until capital reserves reach 25% of issued share capital. The legal reserve can be used for covering current and prior year losses.

(p) Off-balance sheet commitments and contingent liabilities

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

(q) Managed funds for and on behalf of third parties

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

4. Financial risk management

The Bank's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate and other price risk. The Bank has established an integrated system of risk management by introducing a set of policies and procedures for analysis, evaluation, acceptance and risk management. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business.

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

The Management board has established the Asset and Liability committee (ALCO) and Credit committee, while Operational risks are monitored in the Risk controlling and monitoring department, which are responsible for developing and monitoring Bank risk management policies in their specified areas.

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

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the result of which are reported to the Audit Committee.

4.1. Credit risk

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

4.1.1. Risk limit control and mitigation policies

The Bank's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually. Exposures to credit risk are also managed in part by obtaining collateral and corporate and personal guarantees.

The Bank does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Bank defines counterparties as having similar characteristics if they are related entities. Risk-steering and risk-controlling processes are adjusted in a timely manner to reflect changes in the operating environment.

The Bank's exposure to credit risk relates to the following assets and liabilities:

1. Balance sheet
   - loans,
   - borrowings,
   - overdraft,
   - advances, investments,
   - securities portfolio,
   - debt securities
   - receivables from interbank balances,
   - and all other items which expose the Bank to the risk of uncollectability, that is, business failure.

2. Bank's off balance sheet
   - • guarantees,
   - • other warranties,
   - • letters of credit,
   - • loan commitments and all other items which represent the Bank's contingent liabilities.

The Bank performs regular formal asset reviews, separately for each client, and credit risk estimation is performed on a monthly basis based on the following criteria:

1. client's regularity in settlement of obligations
2. estimation of client's business, including financial and capital strength,
3. estimation of client's business position within economic branch,
4. management estimation,
5. quality of business relations with the client,
6. estimation of quality and viability of insurance instruments for receivables collectability.

4. Financial risk management (continued)

4.1.2. Credit risk management and impairment and provision policies

In accordance with the "Decision regulating minimum standards for credit risk management and bank assets classifications" ("the Decision") and internal Methodological framework for impairment under IFRS, loans and advances and risk-bearing off-balance-sheet items are classified into the following risk buckets, based on their days past due and ABCDE classification criteria:

Risk buckets	Classification criteria	Status
A1	(FBA = A) AND (overdue = 0)	performing
A2	(FBA = A) AND (overdue <1 – 30>)	performing
A3	(FBA = B AND overdue <=60) OR (FBA = A AND overdue <31-60>)	performing
A4	(FBA = A OR B) AND (overdue <61 – 90>)	performing
A5	(FBA = C AND overdue <=180) OR ((FBA=A OR B) AND overdue>90)	non-performing
A6	(FBA = C AND overdue>180) OR (FBA = D AND overdue<=270)	non-performing
A7	(FBA = D AND overdue>270) OR (FBA = E)	non-performing

For above specified portfolio the risk parameters (PD and LGD) are estimated based on analysis of transitions between defined credit states (buckets)

Collateral

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

- deposits,
- guarantors (retail and corporate),
- mortgages over properties,
- mortgage over movables,
- other rights over receivables.

The fair value of real estate and other moveable items charged as collateral is estimated by independent, external surveyor.

4. Upravljanje finansijskim rizikom (nastavak)

4.1.3. Maximum credit risk exposure

The following table presents maximum credit risk exposure for balance and off-balance sheet items. Maximum exposure is presented at gross value, net of impairment allowances and discounted collateral values:

	Maximum exposure	
	2012	2011
Risk bearing balance sheet items:		
Placements with and loans and advances with other banks	18,183	60,476
Loans and advances to corporate and SME customers	206,004	129,096
Loans and advances to retail customers	255,321	225,880
Financial assets available for sale	23,883	17,261
Other financial assets	2,988	909
Subtotal	***506,379***	***433,622***
Risk bearing off-balance sheet items:		
Loan commitments	48,982	61,244
Financial guarantees and letter of credits	30,823	28,255
Subtotal	79,805	89,499
Total	***586,184***	***523,121***
Ukupno	**586.184**	**523.121**

For balance-sheet items, the exposures set out above are based on net carrying amounts as reported at the reporting date.

The Bank holds collateral against loans and advances to customers in the form of mortgage interest over property, other security over assets and guarantees. Estimates of collateral value are based on the value assessed by certified court surveyors at the time of borrowing which is then reduced by a fixed percentage depending on the type of collateral (40% for residential properties, 23-40% for business premises and 15% for equipment). Estimated value of collateral is updated in accordance with internal procedure for collateral revaluation on an annual basis.

	Total carrying value	Individual impairment (IA)	Collective impairment (CA)	Total net carrying value
31 December 2012				
Cash and balances with the Central Bank	111,088	-	(34)	111,054
Due from other banks	18,393	-	(210)	18,183
Loans to customers, net	770,097	(42,628)	(25,399)	702,070
Securities available-for-sale	24,116	-	(233)	23,883
Other financial assets	4,697	-	(1,709)	2,988
	928,391	**(42,628)**	**(27,585)**	**858,178**
31 December 2011				
Cash and balances with the Central Bank	80,163	-	(3)	80,160
Due from other banks	60,478	-	(2)	60,476
Loans to customers, net	673,625	(29,940)	(25,389)	618,296
Securities available-for-sale	17,480	-	(219)	17,261
Other financial assets	2,467	-	(1,558)	909
	834,213	**(29,940)**	**(27,171)**	**777,102**

4. Financial risk management (continued)

The table below shows the gross amount of assets subjects to credit risk treated as performing and non performing, together with the related amount of impairment allowances.

	Performing assets-gross	Impairment allowance	Non performing asset-gross	Impairment allowance	Total gross	Total impairment
31 December 2012						
Placements with and loans and advances with other banks	18,393	(210)	-	-	18,393	(210)
Cash and balances with Central bank	111,088	(34)	-	-	111,088	(34)
Loans and advances to retail customers	312,792	(2,996)	9,645	(8,382)	322,437	(11,378)
Loans and advances to corporate customers	384,785	(9,162)	62,875	(47,487)	447,660	(56,649)
AFS	24,116	(233)	-	-	24,116	(233)
Other financial assets	2,986	(88)	1,711	(1,621)	4,697	(1,709)
Total	**854,160**	**(12,723)**	**74,231**	**(57,490)**	**928,391**	**(70,213)**
31 December 2011						
Placements with and loans and advances with other banks	60,478	(2)	-	-	60,478	(2)
Cash and balances with Central bank	80,163	(3)	-	-	80,163	(3)
Loans and advances to retail customers	272,940	(2,989)	9,079	(7,526)	282,019	(10,515)
Loans and advances to corporate customers	331,991	(9,845)	59,615	(34,969)	391,606	(44,814)
AFS	17,480	(219)	-	-	17,480	(219)
Other financial assets	912	(22)	1,555	(1,536)	2,467	(1,558)
Total	**763,964**	**(13,080)**	**70,249**	**(44,031)**	**834,213**	**(57,111)**

4. Financial risk management (continued)

4.1.4. Concentration of risk of loans and advances to customers

The Bank monitors concentrations of credit risk by economic sector and by geographic location. The economic sector risk concentration by gross value of on balance sheet exposure is as follows:

	Gross maximum exposure 2012.	Gross maximum exposure 2011.
Wholesale and retail trade	225,283	186,170
Manufacture	116,235	111,319
Real estate, renting and business activities	13,073	19,373
Transport, storage and communication	31,243	22,683
Construction	25,049	19,710
Financial intermediation	4,896	4,523
Hotels and restaurants	7,266	5,836
Agriculture, hunting and forestry	4,684	5,667
Education	3,584	3,900
Health and social work	6,182	4,396
Public Administration	1,274	1,766
Mining and quarrying	2,405	1,689
Other	6,486	4,574
Retail	322,437	282,019
TOTAL	**770,097**	**673,625**

Geographic risk concentrations of credit risk exposures mainly relate to the region of the Bosnia and Herzegovina. The geographic risk concentration presented by gross value for balance sheet exposures is as follows:

	Bosnia and Herzegovina	OECD Countries	Non-OECD Countries	Total
Placements with and loans and advances with other banks	2,882	7,661	7,850	18,393
Loans and advances to retail customers	322,437	-	-	322,437
Loans and advances to corporate customers	447,660	-	-	447,660
Financial investments available for sale	13,321	24	10,771	24,116
Other financial assets	4,697	-	-	4,697
31 December 2012	**790,997**	**7,685**	**18,621**	**817,303**

4. Financial risk management (continued)

	Bosnia and Herzegovina	OECD Countries	Non-OECD Countries	Total
Placements with and loans and advances with other banks	3,957	56,521	-	60,478
Loans and advances to retail customers	282,019	-	-	282,019
Loans and advances to corporate customers	391,606	-	-	391,606
Financial investments available for sale	7,239	24	10,217	17,480
Other financial assets	2,467	-	-	2,467
31 December 2011	**687,288**	**56,545**	**10,217**	**754,050**

Structure of the loan portfolio is regularly reviewed within the Risk Department and Credit Risk Committee in order to identify potential events which could have an impact on significant portions of the loan portfolio (common risk factors) and if necessary limit the exposure toward certain sectors of the economy.

4.1.5. Reprograms and restructuring

Renegotiated asset is an asset which is restructured, reprogrammed or converted in any other way, that is, an asset whose, due to user's changed terms and payment abilities, that is his inability to pay in accordance with initially agreed plan or because of changed (to less) current market rate, previously agreed deadlines (deadline or payment plan) and/or other conditions are subsequently changed so that the Bank could enable easier debt servicing for the debtor (and safer for the Bank).

Restructured problematic assets are assets when the Bank grants one or more rebates and concessions to the debtor with financial difficulties. Concessions and rebates include:

a) taking other assets, that is debtor's property as total or partial collection of Bank's receivables,
b) extending the deadline for principal receivable and/or interest,
c) reduction of receivables interest rate,
d) reduction of debt, principal mature receivable and /or interest,
e) other similar concessions.

In 2012 the Bank reprogrammed and restructured 17 problematic clients (12 corporate and 5 retail) with total amount of BAM 5.564 thousand (in 2011: BAM 13,040 thousand).

4. Financial risk management (continued)

4.1.6. Quality analysis of loans and advances

The following table presents quality of investments by type of assets which are recorded in the balance sheet:

	Neither due nor impaired	Past due but not impaired	Past due and impaired	Collective impairment	Specific impairment	Total
31 December 2012						
Loans and advances to banks	18,393	-	-	(210)	-	18,183
Loans and advances to corporate	346,541	35,736	62,875	(9,162)	(47,487)	388,503
Loans and advances to retail	277,193	38,107	9,645	(2,996)	(8,382)	313,567
TOTAL	**642,127**	**73,843**	**72,520**	**(12,368)**	**(55,869)**	**720,253**
31 December 2011						
Loans and advances to banks	60,478	-	-	(2)	-	60,476
Loans and advances to corporate	288,998	45,414	57,276	(9,845)	(34,969)	346,874
Loans and advances to retail	236,709	36,480	8,748	(2,989)	(7,524)	271,424
TOTAL	**586,185**	**81,894**	**66,024**	**(12,836)**	**(42,493)**	**678,774**

The following table presents the value of loans and advances to retail and corporate, at gross value with the value of collateral after discounting:

	Retail	Corporate	Total
31 December 2012			
Gross investments	322,437	447,660	770,097
Collateral value	57,176	219,927	277,103
31 December 2011			
Gross investments	282,019	391,606	673,625
Collateral value	46,660	217,302	263,962

The Bank has the possibility to collect receivables by overtaking collaterals. Total amount of repossessed assets in 2012 is BAM 84 thousand (2011: BAM 1 thousand).

4. Financial risk management (continued)

4.1.7. Aging analysis of loans and advances

The following table presents aging analysis of loans and advances, at gross value, excluding any type of collateral.

	Neither due nor impaired financing of customers	Past due but not impaired	past due and impaired	Impairment allowance	Total
31 December 2012					
No delay	642,127	0	8,258	(11,225)	639,160
Up to 30 days	0	57,801	2,865	(2,675)	57,991
From 30 to 90 days	0	15,675	10,163	(6,701)	19,137
Over 90 days	0	367	51,234	(47,635)	3,966
	642,127	**73,843**	**72,520**	**(68,236)**	**720,254**
31 December 2011					
No delay	586,185	0	5,117	(13,311)	577,991
Up tp 30 days	0	67,303	272	(4,973)	62,602
From 30 to 90 days	0	14,383	9,624	(5,866)	18,141
Over 90 days	0	208	51,011	(31,181)	20,038
	586,185	**81,894**	**66,024**	**(55,331)**	**678,772**

4.1.8. Past due and impaired assets

The following table presents analysis of past due and impaired balance sheet items, with specific impairment allowances:

	Retail	Retail Impairment	Total Retail	Corporate	Corporate Impairment	Total Corporate	Total
31 December 2012							
Collective risk provision	9,332	(8,221)	1.111	5,035	(5,021)	14	1,125
Individual risk provision	313	(161)	152	57,840	(42,466)	15,374	15,526
	9,645	**(8,382)**	**1,263**	**62,875**	**(47,487)**	**15,388**	**16,651**
31 December 2011							
Collective risk provision	8,748	(7,547)	1,201	6,381	(5,206)	1,175	2,376
Individual risk provision	0	0	0	50,895	(30,350)	20,545	20,545
	8,748	**(7,547)**	**1,553**	**57,276**	**(35,556)**	**21,720**	**23,273**

4. Financial risk management (continued)

4.2. Liquidity risk

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

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

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

The table below analyses the Bank's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

31 December 2012	Up to 1 month	1 - 3 months	3 -12 months	1 - 5 years	Over 5 years	Total
Assets						
Cash reserves	57,798	-	-	-	-	57,798
Obligatory reserves with the central bank	53,290	-	-	-	-	53,290
Placements with and loans and advances to other banks	15,687	2,180	550	-	-	18,417
Loans and advances to customers	76,054	76,150	242,580	359,808	156,163	910,755
Financial assets available for sale	-	-	2,571	22,962	357	25,890
Other financial assets	4,325	-	-	-	-	4,325
Total Assets	**207,154**	**78,330**	**245,701**	**382,770**	**156,520**	**1,070,475**
Liabilities						
Current accounts and deposits from banks	467	-	7,973	264,356	-	272,796
Current accounts and deposits from customers	170,464	29,941	139,734	193,730	6,490	540,359
Borrowings	-	-	59	2,482	-	2,541
Other financial liabilities	3,772	65	236	198	10	4,281
Total liabilities	**174,703**	**30,006**	**148,002**	**460,766**	**6,500**	**819,977**
Liquidity gap (assets – liabilities)	**32,451**	**48,324**	**97,699**	**(77,996)**	**150,020**	**250,498**

4. Financial risk management (continued)

31 December 2011	Up to 1 month	1 - 3 months	3 -12 months	1 - 5 years	Over 5 years	Total
Assets						
Cash reserves	33,457	-	-	-	-	33,457
Obligatory reserves with the central bank	46,706	-	-	-	-	46,706
Placements with and loans and advances to other banks	56,642	1,027	2,075	910	910	61,564
Loans and advances to customers	63,287	55,442	217,837	334,329	124,352	795,247
Financial assets available for sale	-	9	6,389	11,520	731	18,649
Other financial assets	1,195	-	-	-	-	1,195
Total Assets	**201,287**	**56,478**	**226,301**	**346,759**	**125,993**	**956,818**
Liabilities						
Current accounts and deposits from banks	3,337	-	-	277,266	30,915	311,518
Current accounts and deposits from customers	176,794	27,008	132,226	85,515	3,421	424,964
Borrowings	6,514	1	115	30	78	6,738
Other financial liabilities	4,974	156	652	450	17	6,249
Total liabilities	**191,619**	**27,165**	**132,993**	**363,261**	**34,431**	**749,469**
Liquidity gap (assets – liabilities)	**9,668**	**29,313**	**93,308**	**(16,502)**	**91,562**	**207,349**

Assets held for managing liquidity risk

The Bank holds assets to support payment obligations and contingent funding in a stressed market environment; these include cash and cash equivalents, deposits, loan receivables and other financial assets.

4.3. Market risk

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

The Management Board sets limits and guidelines for monitoring and mitigating market risks, which is regularly monitored by ALCO Committee.

4.4. Foreign exchange risk

Exposure to currency risk arises from credit, deposit-taking and trading activities and is controlled on a daily basis in accordance with legal and internal limits for each currency, as well as in total amounts for assets and liabilities denominated in or linked to foreign currencies. Treasury department is responsible for daily management of the Bank's currency position in accordance with legal and internal regulations. In order to manage foreign exchange rate risk more efficiently, the Bank monitors economic and other business changes in the environment in order to predict possible changes in foreign currency activities, exchange rates, currencies and risk.

The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2012.

4. Financial risk management (continued)

Concentrations of currency risk of assets and liabilities
The Bank had the following significant currency positions:

31 December 2012	BAM	EUR	USD	Other currencies	Total
Assets					
Cash reserves	16,944	34,043	1,588	5,189	57,764
Obligatory reserves with the central bank	53,290	-	-	-	53,290
Placements with and loans and advances to other banks	2,842	7,714	5,934	1,693	18,183
Loans and advances to customers	175,065	527,005	-	-	702,070
Financial assets available for sale	13,619	10,264	-	-	23,883
Other financial assets	3,264	1,057	1	3	4,325
Total assets	**265,024**	**580,083**	**7,523**	**6,885**	**859,515**
Liabilities					
Current accounts and deposits from banks	321	263,511	-	-	263,832
Current accounts and deposits from customers	197,085	306,309	7,497	6,456	517,347
Borrowings	267	2,274	-	-	2,541
Other financial liabilities	2,971	1,285	3	22	4,281
Total liabilities	**200,644**	**573,379**	**7,500**	**6,478**	**788,001**
Net foreign currency position	**64,380**	**6,704**	**23**	**407**	**71,514**
31 December 2011					
Assets					
Cash reserves	19,508	12,378	267	1,301	33,454
Obligatory reserves with the central bank	46,706	-	-	-	46,706
Placements with and loans and advances to other banks	3,957	48,051	4,597	3,871	60,476
Loans and advances to customers	172,014	446,282	-	-	618,296
Financial assets available for sale	7,020	10,241	-	-	17,261
Other financial assets	847	308	1	39	1,195
Total assets	**250,052**	**517,260**	**4,865**	**5,211**	**777,388**
Liabilities					
Current accounts and deposits from banks	265	281,778	-	-	282,043
Current accounts and deposits from customers	251,349	157,433	4,901	4,473	418,156
Borrowings	113	6,600	-	-	6,713
Other financial liabilities	6,143	67	-	39	6,249
Total liabilities	**257,870**	**445,878**	**4,901**	**4,512**	**713,161**
Net foreign currency position	**(7,818)**	**71,382**	**(36)**	**699**	**64,227**

4. Financial risk management (continued)

Foreign currency sensitivity analysis

The Bank is mainly exposed to EUR, USD and other currencies. Since Convertible Mark (BAM) is pegged to EUR, the Bank is not exposed to risk of change of EUR exchange rate. The following table details the Bank's sensitivity to a 10% increase and decrease in BAM against USD and other currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in currencies. The sensitivity analysis includes external loans where the currency is other than EUR or BAM. A negative number below indicates a decrease in profit where BAM strengthens 10% against USD and against other currencies or a 10% weakening of BAM against USD and against other currencies, there would be an equal and opposite impact on the profit, and the balances below would be positive.

USD and other currencies impact	2012	2011
Profit or loss	42	65

4.5. Interest rate risk

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

The majority of loans and receivables to companies and individuals and deposits from companies and individuals are initially contracted at an interest rate that allows the Bank to vary the interest rate at the Management Board's decision. These financial instruments are classified as instruments that bear variable interest rates. The Management Board changes these interest rates in response to changes in the prevailing market rates.

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

Cash flow and fair value interest rate risk
Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise.

The tables below summarise the Bank's fair value exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts categorised by the earlier of contractual repricing.

31 December 2012	Non-interest bearing	Up to 1 month	1 to 3 months	3 months to 1 Year	1-5 Years	Over 5 Years	Total	Amounts subject to fixed rates
Assets								
Cash reserves	37,788	19,976	-	-	-	-	**57,764**	-
Obligatory reserves with the central bank	-	53,290	-	-	-	-	**53,290**	-
Placements with and loans and advances to other banks	-	15,302	2,000	881	-	-	**18,183**	2,881
Loans and advances to customers	-	472,254	4,556	212,297	9,645	3,318	**702,070**	25,427
Financial assets available for sale	357	-	-	2,510	21,016	-	**23,883**	23,526
Other financial assets	4,325	-	-	-	-	-	**4,325**	-
Total financial assets	**42,470**	**560,822**	**6,556**	**215,688**	**30,661**	**3,318**	**859,515**	**51,834**
Liabilities								
Current accounts and deposits from banks	526	-	-	263,306	-	-	**263,832**	25,426
Current accounts and deposits from customers	129,571	254,746	7,478	58,060	65,133	2,359	**517,347**	134,428
Borrowings	-	-	-	2,541	-	-	**2,541**	-
Other financial liabilities	4,281	-	-	-	-	-	**4,281**	-
Total liabilities	**134,378**	**254,746**	**7,478**	**323,907**	**65,133**	**2,359**	**788,001**	**159,854**
Interest rate gap	**(91,908)**	**306,076**	**(922)**	**(108,219)**	**(34,472)**	**959**	**71,514**	**(108,020)**

4. Financial risk management (continued)

31 December 2011	Non-interest bearing	Up to 1 month	1 to 3 months	3 months to 1 Year	1-5 Years	Over 5 Years	Total	Amounts subject to fixed rates
Assets								
Cash reserves	25,317	8,137	-	-	-	-	**33,454**	-
Obligatory reserves with the central bank	-	46,706	-	-	-	-	**46,706**	-
Placements with and loans and advances to other banks	-	60,476	-	-	-	-	**60,476**	60,476
Loans and advances to customers	-	405,961	1,533	198,977	8,953	2,872	**618,296**	18,633
Financial assets available for sale	355	16,906	-	-	-	-	**17,261**	16,906
Other financial assets	1,195	-	-	-	-	-	**1,195**	-
Total financial assets	**26,867**	**538,186**	**1,533**	**198,977**	**8,953**	**2,872**	**777,388**	**96,015**
Liabilities								
Current accounts and deposits from banks	325	3,012	-	253,280	25,426	-	**282,043**	25,426
Current accounts and deposits from customers	67,796	299,605	7,333	38,282	4,108	1,032	**418,156**	52,152
Borrowings	-	6,514	1	113	20	65	**6,713**	-
Other financial liabilities	6,249	-	-	-	-	-	**6,249**	-
Total liabilities	**74,370**	**309,131**	**7,334**	**291,675**	**29,554**	**1,097**	**713,161**	**77,578**
Interest rate gap	**(47,503)**	**229,055**	**(5,801)**	**(92,698)**	**(20,601)**	**1,775**	**64,227**	**18,437**

Interest rate sensitivity analysis

The sensitivity analyses above have been determined based on the exposure to interest rates for 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.

Based on the above interest rate sensitivity, at 31 December 2012, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Bank's profit for the year ended 31 December 2012 would increase/decrease by BAM 1,422 thousand (2011: decrease/increase by BAM 1,456 thousand).

Maturity of off-balance sheet items

(a) Loan commitments

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

(b) Financial guarantees and letters of credits

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

(c) Operating lease commitments

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

4. Financial risk management (continued)

	Up to 1 year	1-5 years	Over 5 years	Total
31 December 2012				
Loan commitments	48,124	11,701	-	59,825
Financial guarantees and letters of credit	33,857	3,357	-	37,214
Operating lease commitments	646	2,241	1,873	4,760
Total	82,627	17,299	1,873	101,799
31 December 2011				
Loan commitments	43,434	16,305	2,874	62,613
Financial guarantees and letters of credit	27,805	2,440	-	30,245
Operating lease commitments	1,509	3,207	585	5,301
Total	**72,748**	**21,952**	**3,459**	**98,159**

Price risk

Price risk is the risk arising from changes in the value of financial instruments as a result from changes in market prices. The Bank has a conservative approach to investments in securities. In 2012 the Bank incurred a net profit amounting to BAM 705 thousand based on the increase in value of available for sale financial assets recognised directly in capital (2011: BAM 281 thousand).

Operating risk

Operating risks are risks arising from the shortcomings or faults in internal processes, systems and employees or from external events. The definition comprises legal risk, and excludes strategic risk and risk of losing reputation. Bank's exposure to operating risk is determined by internal and external factors. Internal factors which determine Bank's exposure to operating risk are: employees' competence, fluctuation of work force, changes in Bank's organizational scheme and other. External factors which determine Bank's exposure to operating risk are: changes in financial sector, technological progress, changes in political situation and other.

Operating risk management in the Bank includes:

1) monitoring of harmful events from operating risks area
2) identification of operating risks by processes in the Bank
3) evaluation of significant risks
4) addressing significant risks.

Fair value of financial instruments

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

Cash and cash equivalents

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

Loans and advances to customers

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

Customer deposits

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

4. Financial risk management (continued)

Borrowings and bank deposits

The fair value of variable yield borrowings that regularly reprice, with no significant change in credit risk, generally approximates their carrying value. The fair value of borrowings at fixed 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, Management considers that the fair value of borrowings at fixed interest rates is not significantly different from their carrying value.

Capital risk management

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

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

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

The table below summarizes the composition of regulatory capital and the capital adequacy ratio of the Bank for the years ended 31 December 2012 and 2011 prepared in accordance with Agency regulations.

	2012	2011
Bank's net capital according to Banking Agency regulations	113,043	102,073
Risk from risk weighted assets and loan equivalents	764,708	687,774
Weighted operational risk	50,480	40,109
Total weighted risk	**815,188**	**727,883**
Capital adequacy ratio	**13.9%**	**14.0%**

We note that the Agency regulations for calculation of capital assignment for operational risk were changed in 2010, resulting in lower capital adequacy ratio.

A minimum capital requirement according to the Banking agency regulations amounts to 12%.

In accordance with the Law on Banks (Official Gazette of Federation of BIH), minimum amount of Bank's paid in equity and the lowest level of equity the Bank has to maintain, cannot be less than BAM 15,000 thousand.

Bank's equity comprises basic capital less basic capital deductible items and additional capital. Bank's basic capital comprises paid share capital and Bank's reserves. Deductible items of basic capital are: amount of intangible assets, uncovered loss from previous years and current year loss, carrying amount of Bank's treasury shares.

5. Critical accounting estimates and judgements

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

Impairment losses on loans and advances

The Bank monitors the creditworthiness of its customers on an ongoing basis. As already mentioned under note 3 the impairment loss recognised in income statement is determined based on the category in which the asset is classified.

In determining the overall level of loan impairment allowance required, management considers delay in repayment, the financial condition of the borrower, capacity of repayments, quality of collateral, economic environment, historic repayment and past debt experience.

Taxation

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

Court proceedings provisions

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

Regulatory requirements

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

Fair value of financial instruments

Management uses its judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates.

Loans to customers, net

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.

Retirement benefits

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations.

The assumptions used in determining the net cost (income) for pensions include the discount rate. The Bank determines the appropriate discount rate at the end of each year (2012 – 7% and 2011 – 7%). This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Bank considers the estimated interest rates of high-quality government long-term bonds. Since at the balance sheet date Government of Bosnia and Herzegovina does not have any issued long-term bonds, the Bank uses the average interest rate for long-term deposits. Other key assumptions for pension obligations are based in part on current market conditions.

6. Interest income and similar income

	2012	2011
Interest on loans to corporate	28,007	24,404
Interest on loans to retail	25,434	21,752
Interest on placements with and loans and advances to other banks	603	1,031
Interest on investments in bonds	808	507
Interest on placements with the central bank	18	303
Total	**54,870**	**47,997**

7. Interest and similar expense

	2012	2011
Interest on retail deposits	6,655	5,088
Interest on corporate' deposits	5,405	2,840
Interest on deposits and borrowings from banks	5,988	6,142
Total	**18,048**	**14,070**

8. Fee and commission income

	2012	2011
Fees from payment transactions	11,765	10,346
Fees from foreign exchange transactions	1,454	1,459
Fees from off-balance-sheet transactions	1,053	903
Total	**14,272**	**12,708**

9. Fee and commission expense

	2012	2011
Fees and commissions for payment transactions	1,487	1,344
Other fees to banks	306	265
Total	**1,793**	**1,609**

10. Net foreign exchange gains

	2012	2011
Foreign exchange trading gains, net	1,494	1,387
Foreign exchange translation gains, net	21	(44)
Total	**1,515**	**1,343**

11. Other operating income

	2012	2011
Rental income	585	583
Release of accruals for IT services	9	301
Other	425	716
Total	**1,019**	**1,600**

12. Personnel expenses

	2012	2011
Salaries	7,536	7,329
Taxes and contributions	5,636	5,298
Other	2,726	2,581
Total	**15,898**	**15,208**

The average number of employees of the Bank during the years ended 31 December 2012 and 2011 was 452 and 432 respectively.

13. Other administrative expenses

	2012	2011
Services	2,777	2,503
Rent	1,550	1,578
Insurance	1,948	1,369
Communication costs	1,219	1,286
Advertising and marketing	983	1,173
Maintenance	1,147	1,085
Transportation	1,098	967
Energy cost	888	889
Other taxes and dues	750	693
Material expenses	569	554
Fees to Agency	546	477
Fees to Supervisory Board members	133	135
Other	276	412
Total	**13,884**	**13,121**

14. Impairment losses

	Note	2012	2011
Loans and advances to customers	22	12,789	11,248
Other assets	24	156	344
Cash and cash reserves	19	31	(2)
Financial instruments available-for-sale	23	14	(6)
Placements with and loans and advances to banks	21	208	(1)
Total		**13,198**	**11,583**

15. Release of other provisions

	Note	2012	2011
Provisions for legal proceedings	31	133	(192)
Provisions for off-balance sheet items	31	(1,523)	158
Total		**(1,390)**	**(34)**

16. Prihodi od naplaćenih otpisanih potraživanja

	2012	2011
Income from collection of written-off interest receivables	479	700
Total	**479**	**700**

17. Income tax

Income tax charged in the income statement comprises current tax only.

Income tax expense recognised in income statement

	2012	2011
Current tax expense	807	73
Income tax charge for the year	**807**	**73**

The official tax rate within the country is 10% (2011: 10%).

17. Income tax (continued)

Reconciliation of the accounting profit and income tax expense

	2012	2011.
Profit before income tax	7,817	6,464
- non-taxable income	(31)	-
- non-deductible expenses	282	311
Taxable profit	8,068	6,775
Deduction: tax reliefs from losses carried forward	-	(1,130)
Taxable profit in FBiH	6,310	5,645
Taxable profit in Brčko District	416	519
Taxable profit in Republic of Srpska	1,342	220
Income tax profit	8,068	6,384
Income tax charge for the year before reliefs	(807)	(638)
Deduction: tax reliefs from foreign shareholding	-	547
Deduction: tax paid in BD and RS	-	18
Income tax charge for the year	**(807)**	**(73)**
Effective tax rate (%)	**10.3%**	**1.1%**

In 2012 the Bank is not entitled to any tax realief. In 2011 tax realief amounting 547 TBAM is based on the percentage of foreign shareholding in the total capital of the Bank in amount of 97%, as prescribed by the Corporate Profit Tax Law of business entities (Official Gazette of FBiH no.32a/97, 29/00, article 29). As of 1 Janaury 2008 new Corporate Profit Tax Law has been introduced (Official Gazette of FBiH no. 97/07, 14/08), prescribing that the Article 29 of the old Law is still in force untill the period of five year expires, starting from the year in which the Bank became eligible for using the foreign shareholing tax relief. In the case of the Bank 2011 is the last year in which the Bank is eligible to use the tax holiday as prescribed. However this tax relief might be a matter of subsequent inspection and consequent adjustment by tax authorities.

The Bank's tax liabilities are ascertained in tax statements prepared by the Bank and might be a matter of subsequent inspection and consequent adjustment by tax authorities in a five year period after recognition. The Bank's Management Board is not aware of any circumstances, which may give rise to a potential material liability in this respect.

18. Earnings per share

	2012	2011
Weighted average number of shares	864,733	818,157
Net profit	7,010	6,391
Basic and diluted earnings per share (in BAM)	**8.11**	**7.81**

19. Cash and cash equivalents

	2012	2011
Cash in hand	37,821	25,317
Giro account with central bank	2,566	7,325
Current accounts with other banks in foreign currencies	17,409	812
Cheques in course of collection	2	3
Total before impairment	**57,798**	**33,457**
Provisions	(34)	(3)
Total	**57,764**	**33,454**

The provisions are related to cheques in course of collection and current accounts with other banks in foreign currencies.

Changes in provisions are presented as follows:

	2012	2011
Balance as at 1 January	3	5
Impairment losses (Note 14)	31	(2)
Balance as at 31 December	**34**	**3**

20. Obligatory reserve with the Central Bank

	2012	2011
Obligatory reserve at Central Bank	53,290	46,706
Total	**53,290**	**46,706**

The obligatory reserve represents amounts required to be deposited with the Central Bank of Bosnia and Herzegovina. Pursuant to the Law on the Central Bank of Bosnia and Herzegovina, starting from 30 of December 2010 the obligatory reserve requirement represents 10 % of average ten-day deposits and borrowings expressed due within one year and 7% of those due after a year in BAM. Government funds for development after 1 May 2009 are excluded from the calculation. The obligatory reserve is maintained as the average balance on the current account with the Central Bank of Bosnia and Herzegovina. This reserve is available for liquidity purposes. The Central Bank of Bosnia and Herzegovina pays a fee on the obligatory reserve in the manner specified by Law.

21. Placements with and loans and advances to other banks

	2012	2011
Placements with banks		
Money market placements	17,492	56,511
Restricted deposits	20	20
	17,512	**56,531**
Loans and advances to banks		
Intesa Sanpaolo banka d.d. Sarajevo	881	1,376
Privredna banka d.d. Sarajevo	-	1,919
Moja banka d.d. Sarajevo (former Fima banka d.d. Sarajevo)	-	652
Total before impairment	**18,393**	**60,478**
Provisions	(210)	(2)
Total	**18,183**	**60,476**

The average interest rate for placements in EUR on 31 December 2012 was 0.59% (2011: 0.89%).

Changes in provisions are presented as follows:

	2012	2011
Balance as at 1 January	2	3
Impairment losses (Note 14)	208	(1)
Balance as at 31 December	**210**	**2**

22. Loans and advances to customers

	2012	2011
Short-term loans		
Corporate loans	183,049	142,869
Retail loans	22,054	19,780
	205,103	**162,649**
Long-term loans		
Corporate loans	264,611	248,737
Retail loans	300,383	262,239
	564,994	**510,976**
Total loans before provisions for impairment	**770,097**	**673,625**
Provisions for loan impairment	(68,027)	(55,329)
Total	**702,070**	**618,296**

22. Loans and advances to customers (continued)

Changes in provision can be presented as follows:

	2012	2011
Balance as at 1 January	55,329	44,180
Impairment losses (Note 14)	12,789	11,248
Write-offs	(91)	(99)
Balance as at 31 December	**68,027**	**55,329**

Loans and advances to customers are presented including accrued interest in the amount of BAM 5,192 thousand (2011: BAM 4,880 thousand), and net of deferred fees in the amount of BAM 3,930 thousand (2011: BAM 3,722 thousand).).

The weighted average interest rate on loans and advances to customers during the year can be presented as follows:

	2012	2011
Corporate	6.24%	7.49%
Retail	7.83%	8.20%

23. Financial assets available for sale

	2012	2011
Total equity securities	**357**	**357**
Debt securities		
Government of Republic of Croatia – bonds (Baa3/BBB)	10,795	10,217
Government of the Federation of Bosnia and Herzegovina – T bills	2,477	6,453
Government of the Federation of Bosnia and Herzegovina and Republic of Srpska- bonds (B+)	10,487	453
Total debt securities	***23,759***	***17,123***
Less : Provision for impairment	**(233)**	**(219)**
Total	**23,883**	**17,261**

Changes in provisions are presented as follows:

	2012.	2011.
Balance as at 1 January	219	225
Impairment (gain) / losses (Note 14)	14	(6)
Balance as at 31 December	**233**	**219**

24. Other assets

	2012	2011
Financial assets		
VAT receivables	124	-
Fees and commissions receivable	717	583
Receivables from domestic payment transactions	519	375
Receivables from Western Union	69	175
Foreclosed assets	193	105
Licensed exchange office	668	-
Other financial assets	2,408	1,229
	4,698	**2,467**
Non financial assets		
Prepaid expenses	1,247	206
Consumables	89	80
	1,336	**286**
Total other assets before provision	**6,034**	**2,753**
Less: Provision for impairment	(1,709)	(1,558)
Total	**4,325**	**1,195**

Changes in provisions are presented as follows:

	2012	2011
Balance as at 1 January	1,558	1,214
Impairment losses (Note 14)	156	344
Write-offs	(5)	-
Balance as at 31 December	**1,709**	**1,558**

The majority of provision relate to amounts included in other receivables, being mainly fees and commission due.

25. Property and equipment

	Land and buildings	Computers	Vehicles	Furniture and office equipment	Construction in progress	Total
COST						
At 31 December 2010	**24,421**	**2,950**	**712**	**7,564**	**112**	**35,759**
Additions	-	-	-	-	1,444	1,444
Transfer (from) / to	197	257	114	700	(1,268)	-
Disposals	-	(2)	(464)	(26)	-	(492)
At 31 December 2011	**24,618**	**3,205**	**362**	**8,238**	**288**	**36,711**
Additions	-	-	-	-	1,817	1,817
Transfer (from) / to	111	124	160	1,276	(1,671)	-
Disposals	-	(206)	-	(187)	-	(393)
At 31 December 2012	**24,729**	**3,123**	**522**	**9,327**	**434**	**38,135**
ACCUMULATED DEPRECIATION						
At 31 December 2010	**890**	**2,237**	**437**	**3,203**	**-**	**6,767**
Charge for the year	331	268	49	787	-	1,435
Disposals	-	(2)	(389)	(20)	-	(411)
At 31 December 2011	**1,221**	**2,503**	**97**	**3,970**	**-**	**7,791**
Charge for the year	491	277	70	958	-	1,796
Disposals	-	(205)	-	(184)	-	(389)
At 31 December 2012	**1,712**	**2,575**	**167**	**4,744**	**-**	**9,198**
CARRYING AMOUNT						
31 December 2011	**23,397**	**702**	**265**	**4,268**	**288**	**28,920**
31 December 2012	**23,017**	**548**	**355**	**4,583**	**434**	**28,937**

26. Investment property

The movements in investment property assets during the year ended 31 December 2012 are summarized as follows:

	Investment property	Total
COST		
At 31 December 2010	**6,331**	**6,331**
Additions	-	-
Reclassification from VAT receivables (Note 24)	922	922
At 31 December 2011	**7,253**	**7,253**
Additions	3	3
Reclassification to VAT receivables (Note 24)	(818)	(818)
At 31 December 2012	**6,437**	**6,437**
ACCUMULATED DEPRECIATION		
At 31 December 2010	**42**	**42**
Charge for the year	88	88
At 31 December 2011	**130**	**130**
Charge for the year	127	127
At 31 December 2012	**257**	**257**
CARRYING AMOUNT		
31 December 2011	**7,123**	**7,123**
31 December 2012	**6,180**	**6,180**

Investment property relates to business premises rented out (floors) at the headquarters' building in Sarajevo, not used by the Bank. Investment property at a carrying amount of BAM 6,180 (2011: BAM 7,123) was put in use in 2010.

In the opinion of management, the fair value as of 31 December 2012 does not differ significantly from the carrying value of the building.

27. Intangible assets

	Software and licences	Leasehold improvements	Investments in progress	Total
COST				
At 31 December 2010	**3,777**	**1,121**	**194**	**5,092**
Additions	-	-	859	859
Transfer (from) / to	850	146	(996)	-
Disposals	-	(56)	-	(56)
At 31 December 2011	**4,627**	**1,211**	**57**	**5,895**
Additions	-	-	949	949
Transfer (from) / to	815	168	(983)	-
Disposals	-	-	-	-
At 31 December 2012	**5,442**	**1,379**	**23**	**6,844**
ACCUMULATED AMORTISATION				
At 31 December 2010	**1,872**	**605**	**-**	**2,477**
Charge for the year	634	170	-	804
Reclassification to investment property (Note 26)	-	-	-	-
Disposals	-	(56)	-	(56)
At 31 December 2011	**2,506**	**719**	**-**	**3,225**
Charge for the year	795	188	-	983
Reclassification to investment property (Note 26)	-	-	-	-
Disposals	-	-	-	-
At 31 December 2012	**3,301**	**907**	**-**	**4,208**
CARRYING AMOUNT				
31 December 2011	**2,121**	**492**	**57**	**2,670**
31 December 2012	**2,141**	**472**	**23**	**2,636**

28. Current accounts and deposits from banks

	2012	2011
DEMAND DEPOSITS		
In domestic currency	146	139
In foreign currencies	241	93
	387	**232**
TERM DEPOSITS		
In domestic currency	139	90
In foreign currencies	263,306	281,721
	263,445	**281,811**
Total	**263,832**	**282,043**

Term deposits in foreign currency as of 31 December 2011 include a long-term deposit in the amount of EUR 85 million with maturity date as at 30 June 2016 (2010: EUR 85 million or BAM 166 million), EUR 4 million with maturity as at 19 August 2013, EUR 9 million with maturity as of 28 September 2016, EUR 5,5 million with maturity as at 28 October 2016, EUR 7 million with maturity as at 30 November 2016, EUR 5 million with maturity as at 23 July 2015, EUR 10 million with maturity as at 31 July 2017, EUR 4 million with maturity as at 30 December 2016 and EUR 4 million with maturity as at 28 December 2016 received from Steiermarkische Bank and Sparkassen AG.

29. Current accounts and deposits from customers

	2012	2011
DEMAND DEPOSITS		
Retail:		
In domestic currency	57,670	54,933
In foreign currencies	29,940	23,844
	87,610	**78,777**
Corporate:		
In domestic currency	46,897	62,898
In foreign currencies	8,674	6,159
	55,571	**69,057**
Other government and non-government organizations		
In domestic currency	13,059	14,134
In foreign currencies	1,210	1,194
	14,269	**15,328**
	157,450	**163,162**
TERM DEPOSITS		
Retail:		
In domestic currency	72,771	35,806
In foreign currencies	141,260	111,275
	214,031	**147,081**
Corporate:		
In domestic currency	41,446	52,902
In foreign currencies	49,975	16,046
	91,421	**68,948**
Other government and non-government organizations		
In domestic currency	48,494	29,515
In foreign currencies	5,951	9,450
	54,445	**38,965**
	359,897	**254,994**
Total	**517,347**	**418,156**

30. Borrowings

	Short term		Long-term		Total	
	2012	2011	2012	2011	2012	2011
Steiermarkische Bank und Sparkassen AG (i)	-	6,514	-	86	-	6,600
Government of Zenica-Doboj Canton (ii)	-	-	-	113	-	113
European Bank for Reconstruction and Development (iii)	-	-	2,274	-	2,274	-
Fondacija OdRaz (World Bank funds) (iv)	-	-	267	-	267	-
Total	**-**	**6,514**	**2,541**	**199**	**2,541**	**6,713**

(i) Borrowed funds from Steiermarkische Bank and Sparkassen AG with maturity date 30.06.2012. and interest rate 2,117%.

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

(iii) On the 26th of September 2011, the Bank signed a Loan Agreement with the European Bank for Reconstruction and Development in amount of EUR 5 million with interest rate of 6 month Euribor +1,55%, with funds being intended for SME Competitiveness support.

(iv) Sparkasse Bank d.d. has a signed contract with the Federal Ministry of Finance and Fondacija OdRaz for the utilization of World Bank funds for projects relating to financing and enhancing access to finance for SME Projects, especially for investments and working capital loans. The Interest rate the Bank pays on these funds is Euribor +1 %.

31. Other provisions

	2012	2011
Provision for off-balance sheet items (Note 15)	1,844	3,367
Provision for legal proceedings (Note 15)	930	852
Provisions for employee benefits	1,210	1,153
Total	**3,984**	**5,372**

Changes in provisions are presented as follows:

	Legal proceedings	Off-balance sheet items	Provisions for employee benefits	Total
Balance as at 31 December 2010	**1,045**	**3,209**	**1,049**	**5,303**
Balance as of January 2011	1,045	3,209	1,049	5,303
Net charge (release) to profit or loss	(192)	158	104	70
Provisions settled during the year	(1)	-	-	(1)
Balance as at 31 December 2011	**852**	**3,367**	**1,153**	**5,372**
Balance as of January 2012	852	3,367	1,153	5,372
Net charge (release) to profit or loss	133	(1,523)	923	(467)
Provisions settled during the year	(55)	-	(866)	(921)
Balance as at 31 December 2012	**930**	**1,844**	**1,210**	**3,984**

Net (release)/charge to income statement for provisions for employee benefits is presented as part of personnel expenses.

32. Other liabilities

	2012	2011
OTHER FINANCIAL LIABILITIES		
Liabilities to employees	1,604	1,664
Liabilities to suppliers	872	869
Liabilities for undistributed payments	282	168
Tax payables	28	28
Income tax liability	282	18
Liabilities from interbank transactions	-	2,924
Other	1,213	578
Total	**4,281**	**6,249**

33. Share capital

The Bank's ownership structure was as follows:

	31 December 2012			31 December 2011		
	Share capital BAM '000	Number of shares	% of ownership	Share capital BAM '000	Number of shares	% of ownership
Steiermarkische Bank und Sparkassen AG, Graz, Austria	83,901	839,006	97.0	83,896	838,960	97.0
Other	2,572	25,727	3.0	2,577	25,773	3.0
Total	**86,473**	**864,733**	**100.0**	**86,473**	**864,733**	**100.0**

Share capital is made up of 864,733 ordinary shares with a nominal value of BAM 100 per share.

Share premium represents the excess of the paid-in amount over the nominal value of the issued shares.

34. Related-party transactions

Transactions with related parties are summarized as follows:

Transactions with parent Bank

	31 December 2012		31 December 2011	
	Receivables	Payables	Receivables	Payables
Steiermarkische Bank und Sparkassen AG, Graz, Austria	494	263,337	20	330,127
Total	**494**	**263,337**	**20**	**330,127**

	31 December 2012		31 December 2011	
	Prihodi	Troškovi	Prihodi	Troškovi
Steiermarkische Bank und Sparkassen AG, Graz, Austria	78	5,857	25	3,523
Steiermarkische Bank und Sparkassen AG, Graz, Austria – fee expenses	-	116	-	180
Total	**78**	**5,973**	**25**	**3,703**

Transactions with other related parties

	31 December 2012		31 December 2011	
	Receivables	Payables	Receivables	Payables
Erste Bank der Oesterreichischen Sparkassen AG Wien, Austria	12,912	-	19,650	-
Erste and Steiermarkische bank dd Zagreb, Croatia	472	-	12	-
Sparkasse Bank Macedonia	7,848	-	2	-
Total	**21,232**	**-**	**19,664**	**-**

	Year ended 31 December 2012		Year ended 31	
	Income	Expense	Income	Expense
Sparkasse Bank, Macedonia	27	-	526	-
Erste Bank der Oesterreichischen Sparkassen AG Wien, Austria	28	-	42	-
S Leasing d.o.o. Sarajevo	88	172	-	212
Total	**143**	**172**	**568**	**212**

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

Director's and executives' remuneration,

The total remuneration of the Management Board and other members of key management during the year ended 31 December 2012 were as follows:

	2012	2011
Salaries and other income	1,405	1,180
Taxes and contributions on salaries and other income	1,037	859
Total	**2,442**	**2,039**

35. Managed funds

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

The table below provides analysis of the funds managed on behalf of customers:

	2012	2011
Loans		
Companies	17,131	17,542
Individuals	3,701	3,824
Total	**20,832**	**21,366**
Funds under management from:		
Employment agency of the Federation of Bosnia and Herzegovina	18,108	18,414
Citizens and companies	-	140
Ministry of War veterans of Zenica-Doboj Canton	1,071	1,110
International Guarantee Agency	326	326
Government of Zenica-Doboj Canton	223	248
Government of Bosnia-Drina Canton	805	813
Employment agency of Zenica-Doboj Canton	172	188
Employment agency of Bosnia-Drina Canton	22	22
Lutheran World Federation	73	73
Housing fund of Una-Sana Canton	29	29
War veterans Bihać	3	5
Total	**20,832**	**21,368**

The Bank does not bear the risk for these placements and charges a fee for its service. Funds under management we invested in loans to companies and individual on behalf of the customer.

36. Commitments and contingencies

The aggregate amount of outstanding guarantees, letters of credit and undrawn loan commitments at the yearend were:

	2012	2011
Undrawn lending commitments	59,825	62,613
Payment guarantees	12,244	11,131
Performance guarantees	20,444	18,016
Letters of credit	4,526	1,098
Total	**97,039**	**92,858**

Impressum

Publisher: Sparkase Bank dd
Design by Žarulja.ba