SPARKASSE BANK

Annual Report 2011

Sparkasse Bank dd

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SWIFT: ABSBBA 22

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Founded in: 1999.

Figures 2011:
Owner: Steiermaerkische Sparkasse Austrija
Number of employees: 432
Number of affiliates: 45
Number of clients: app. 180.000

Key bodies

MANAGEMENT BOARD

CEO
Sanel Kusturica, MBA

Executive director
Zahida Karić, MBA

Executive director
Nedim Alihodžić

Executive director
Amir Softić

SUPERVISORY BOARD

Chairman
Sava Dalbokov, MBA

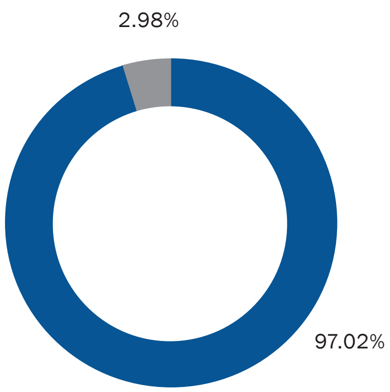
Members
Mag. Franz Kerber
Hamdija Alagić
Mag. Renate Ferlitz
Dr. Georg Bucher

AUDITING BOARD

Chairman
Samir Omerhodžić

Members
Walburga Seidl
Guenter Schneider
Aleksandar Klemenčić (until 01.11.2011.)
Slaviša Kojić
Manfred Lackner (from 01.11.2011.)

Ownership structure



SPARKASSE BANK

Annual Report 2011

Management on 2011

To our shareholders, business partners, clients and employees

Sanel Kusturica, Director
Retail and Corporate, Legal operations, Human resources

It is my great pleasure to have the opportunity to give you a short overview of the achievements of the Sparkasse Bank in Bosnia and Herzegovina in 2011, which I believe have brought us another step closer to our long-term development strategy and reaching the top of the banking market in Bosnia and Herzegovina. Thanks to its forceful market activities and increased revenues, streamlining of the expenditures, and the overall increased business efficiency in 2011, the Sparkasse Bank achieved a positive financial result of 6.4 million KM. The very difficult macro-economic conditions in Bosnia and Herzegovina, slight growth of the banking sector in terms of credit activities, as well as the stagnation in the field of savings and deposits, make our results even more notable. However, the Sparkasse Bank, empowered by its experience of running business in the times of crisis, has managed to take necessary streamlining actions and used opportunities that appeared on the market.

Continued positive growth trend in all segments
In 2011 we continued a positive trend of significant growth in all segments of the market, which has been one of the characteristics of the Sparkasse Bank ever since 2007. Good liquidity and capital basis made it possible for us to keep our position of one of the fastest growing and most active banks in the credit market. It can be said that this momentum introduced to Bosnia and Herzegovina by the Sparkasse Bank, has become our distinguishing mark and one of the main elements that make us stand out on the market. This active sales approach, along with the continuous improvement of quality, has certainly been a factor that contributed to the trust in the name of Sparkasse, as we can see from the continuous and significant growth of active clients of the bank.

Strengthening and intensification of operations with businesses
Growth rates and achievement of goals set in the past several years, confirm that the Sparkasse bank has managed to build up a sovereign position in the population segment that we can built our competitive advantage on. The growth of the credit portfolio in this segment was over 20% for this period, and what we are particularly proud of is the great trust of clients in our savings services, which increased our savings portfolio by more than 25%, which is a very important result for us, but also a motive to preserve and strengthen that trust. Moreover, we can proudly say that in 2011 we have managed to intensify and develop our operations with legal entities and, when it was the most needed, enforce our business credit activities with a growth rate of about 24%. In this segment we have focused on the support to small and medium business, where we see significant, yet unused, potential for the Bosnian economy. The results followed – about 1,000 new small and medium entrepreneurs chose us to be their business bank, and SME crediting has grown by more than 17% compared to 2010. In this way we fulfilled our plan, as well as our duty, to give the necessary contribution and support to the economic recovery of the country.

Grounds for a sustainable grown on the long run
The results achieved in 2011 are a confirmation that the Sparkasse Bank has successfully completed on phase of putting up cornerstones for a long-term sustainable business, and has confidently stepped into a stage of healthy growth and development. The key force in this have been and will remain our employees, whose extraordinary individual engagement and teamwork in a very demanding business environment has been the reason for the success, and it is for that I wish to compliment and thank each individual team member. It is with such an empowered and loyal team as ours, this business model and organization system, infrastructure and, eventually, capital and structural support of our majority owner, Steiermaerkische Sparkasse, that I am convinced that we can respond to all upcoming challenges, but also ensure the growth of the Sparkasse Bank on the long run.

Amir Softić, executive director
Risk management, Risk controlling and monitoring

Systematic reconciliation of growth and risk management
In the times of turbulent recession and a business environment as the one that we have had in the past three years, the Sparkasse Bank's strong growth strategy had to be accompanied by the development of a strong risk management system.

In 2011 it includes setting up of a new credit portfolio monitoring with a developed system for early recognition and prevention of negative effects on the portfolio quality. On one hand, this approach contributed to the preservation of the Bank's financial health, and on the other it lead to improved quality of support to our clients in their daily business struggles.

Immediate results of this approach have been seen through improvement of risk indicators in 2011, primarily through the reduced portion of low-quality credits, where the Sparkasse Bank is not only way below the sector average, but even lower than in 2010. Furthermore, Sparkasse Bank provided high degree coverage of poor quality assets by credit loss reserves. More importantly, there has been a huge progress in building up a business culture, where growth and risk management are systematically integrated, which is the foundation for a long-term stability and sustainability of the banking business.

Nedim Alihodžić, executive director
Operations, IT and organization, Internal audit, Property and security, Marketing and PR

The most socially responsible company in Bosnia and Herzegovina in 2011
The dynamics on the market and the growth of the Sparkasse Bank in 2011, as well as in the preceding years, had to be followed and supported by the support functions, where large efforts were invested in the improved internal service quality. Obviously only in this way we could create a synchronized and streamlined process chain within the Bank that would result in a better quality of services and products for our clients.
The migration of the Bank to a new process center has significantly contributed to the performances of bank card services, while in the meantime premises of our business network have been almost completely adjusted to the standards of the Group and can offer a pleasant environment to our clients.
We are especially proud that we have managed to use numerous activities and integrate social responsibility model in all business segments to strengthen our internal culture and raise awareness of the importance of contribution to the community. We are very happy to say that the public has recognized our efforts and that the Sparkasse Bank has been given the award "Dobro11" of the Mozaik Foundation as the most socially responsible company in Bosnia and Herzegovina in 2011.

Zahida Karić, executive director
Accounting and controlling, Treasury, AML

Good and sturdy liquidity throughout the period

As a precondition for a dynamic crediting policy in 2011, an adequate assets management policy of the Bank, along with keeping to all coefficients prescribed by the law helped us maintain a good, sturdy and safe liquidity through out the period, observing all limits defined by laws and internal documents. In 2011 we paid special attention to internal efficacy through further development of the existing system of monitoring and reporting, enhanced range of sources through new credit external lines, as well as the reconciliation of reports according to the Basel III standards, which brings us a step loser to the changes of legislation which are ahead of us. Investment banking operations have been enhanced through a new service of securities brokerage, and it is our objective to become profiled as an active participant on the market, which will certainly help us be in the position to support the development of local communities through our services.

In unfavorable market conditions such as ones brought upon us in 2011, adequate and timely reporting was one of the primary activities of the controlling department, while in the acconting we focused our efforts on adjusting to new regulatory demands of the IAS 39 standard.

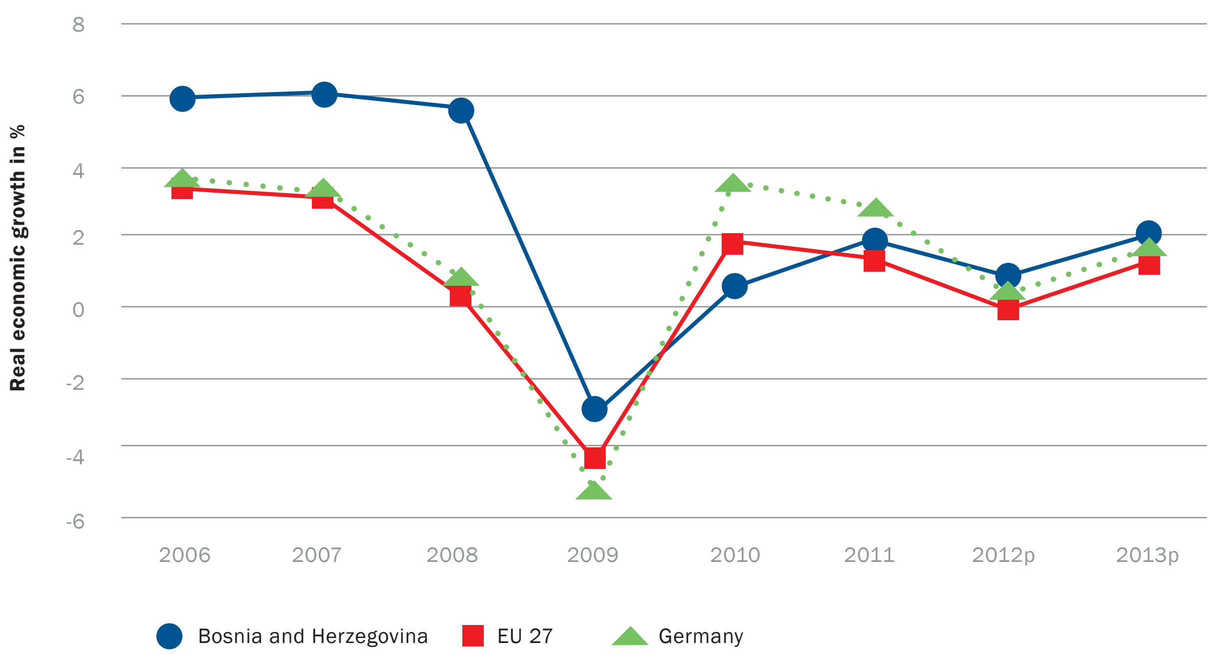
Increased volume of business activities of the bank, as well as the growing client base demanded intense activities in the money laundry prevention segment, especially in terms of increasing internal capacities and efficacy.

Economy & Banking sector in 2011

Countries in the Region and Eurozone remain in “slight” recession in 2012

As the pas years have shown, Bosnian economy has been affected by all global economic and financial trends, both through lack of foreign investments and growth of prices of capital entering the country, and through sluggish export and consequential reduction of economic activities and employment. Almost parallel economic growth in Bosnia and Herzegovina and in the European Union, especially Germany, as shown by Graph 1, confirms the strong link and correlation between our domestic economy and developments in Europe.

Graph 1. Link between Bosnian economy and developments in the EU



Source: DEP BiH (BHAS and EUROSTAT)

Growth of export in the Euro Zone by over 9% in 2010, has dropped to 4% in 2011, which means that under the pressure caused by the debt crisis, European importers’ demand for goods and services has dropped towards all suppliers, including Bosnia and Herzegovina, thus affecting the exports from Bosnia and Herzegovina and causing their further decrease in 2012.

Given the fact that the slight economic recovery of the country in 2011 was lead by the positive development of exports and industrial production, slow-down of these indicators will affect the country’s economy in the following year. According to the IMF’s forecasts, after the slight recovery of the economic growth to 1.7%, the country will face another economic stagnation in 2012.

Growth potential in capital projects in the energy sector and road infrastructure

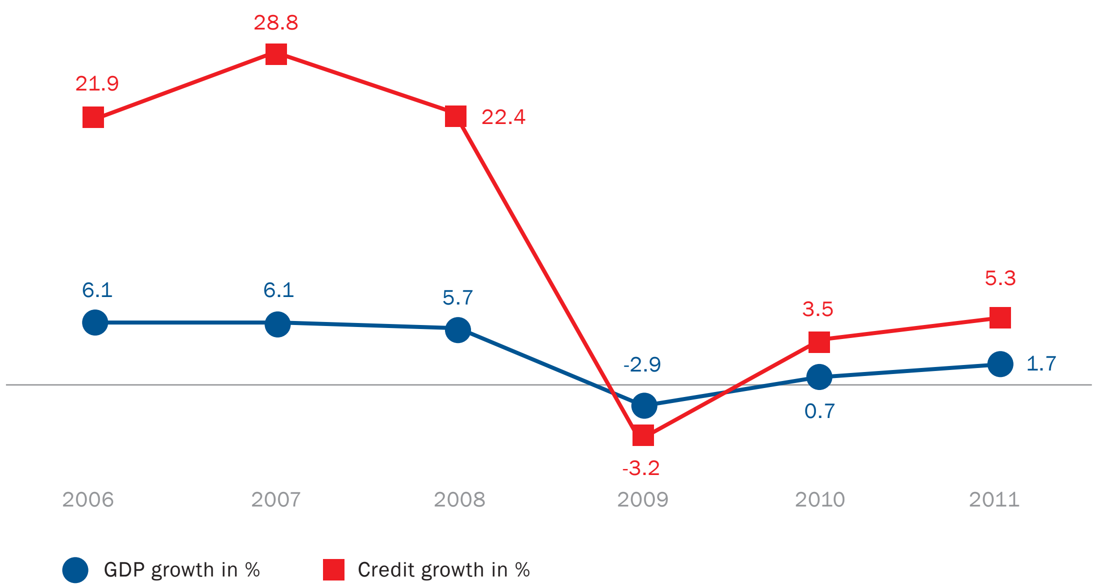
Throughout the whole 2011, Bosnia and Herzegovina has functioned without the state government, which certainly postponed the progress of the political and structural economic reforms, thus hindering access to the financial support and investments from abroad. After the set-up of the government towards the end of the year, the hope exists that all the forces will be directed towards faster implementation of the ongoing, and opening of the new infrastructure projects. As Bosnia and Herzegovina is a moderately indebted country with external debt of about 25 percent of GDP (CBBiH), the government will for sure use the opportunity for a new credit arrangement with the IMF, where a part of funds should certainly be directed towards the economy and infrastructure projects. The Directorate for Economic Planning of Bosnia and Herzegovina has forecasted a positive growth of direct foreign investments in the period to 2015, based on investment of foreign companies in the construction of planned thermal energy blocks, which can give momentum to the economy and employment. These projects in the energy sector and road infrastructure, primarily through the ongoing construction of Corridor 5C, are giving the economy of Bosnia and Herzegovina a huge chance to hire domestic potentials. Of course, the infrastructure projects have not been and will not be sufficient to give incentive to the whole economy, and direct foreign investments will remain a must for all sectors of economy in Bosnia and Herzegovina.

Positive development of profitability of the banking sector in Bosnia and Herzegovina in 2011

It is clear that the negative macroeconomic trends in the region and globally have had effects on the Bosnian banking sector indicators. Credit growth slow-down caused by reduced economic and investment cycle and lack of viable economic projects for financing, as well as a prominent growth of credit risks, have forced the banks to introduce more restrictive credit policies.

According to the data of the Central Bank of Bosnia and Herzegovina, in 2011 the total credit of the sector amounted to 15.3 billion KM and grew by 5.3% in comparison to the year before. The most significant growth rates were noted in the economic sector – 6-9%, which means that the banks have managed to find the way to support the economic growth and recovery of the country, despite very unfavorable business environment. Clearly, credit growth in the sector in 2011 is way below the rates from the pre-crisis period before 2009, which should be observed in correlation with the growth of GDP.

Graph 2. Correlation between credit and economic growth in Bosnia and Herzegovina



Source: Credit growth CBBiH, GDP growth IMF

The growth of savings portfolios in 2011 has slowed down in Bosnia and Herzegovina, as well as in the Region, and the difference between population savings trends in the Balkans and the Euro Zone is evidently drastic. In the past two years, the savings in the Euro Zone grew by less than 3%, while in Bosnia and Herzegovina this growth of over 14% in 2010 slowed down to 8.7% in 2011, but is still significantly higher than in the Euro Zone.

Table 1 Growth of the population deposits per countries

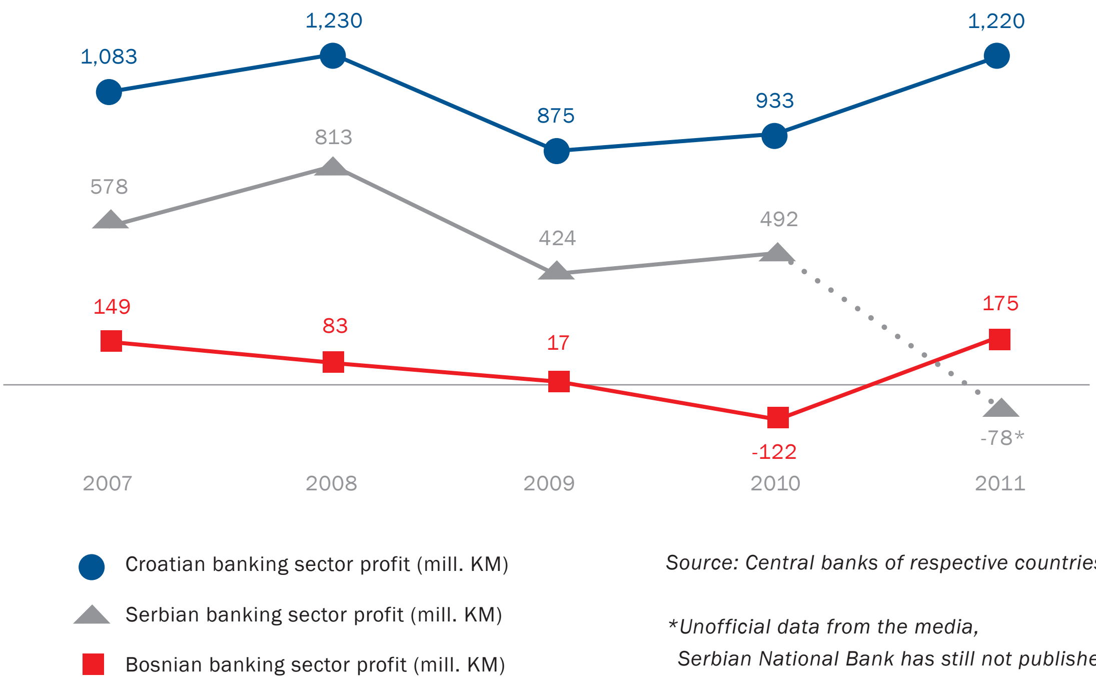
Period	BiH	Croatia	Monte Negro	FYROM	Serbia	Bulgaria	Romania	Euro Zone
2008	0.8%	23.5%	-16.0%	14.2%	-0.5%	16.4%	23.1%	7.6%
2009	8.8%	-1.0%	-1.4%	15.8%	24.2%	10.9%	17.4%	4.1%
2010	14.5%	6.7%	12.8%	16.8%	14.8%	12.3%	7.0%	2.5%
2011	8.7%	4.4%	8.6%	12.0%	8.7%	13.0%	8.3%	2.7%

Source: Directorate for Economic Planning of Bosnia and Herzegovina

Worsening of the banks' financial health indicators in the period 2009-2011 is a global phenomenon, present in Bosnia and Herzegovina and the Region alike. With the NPL share of 12% in the total credits in 2011, Bosnia and Herzegovina has reached its own record in the past few years, but it is still among the countries of former Yugoslavia with the lowest NPL share, excluding Slovenia.

However, thanks to streamlining activities and increased business efficiency, after a significant drop of profitability in 2010, the banking sector in Bosnia and Herzegovina has established a positive business trend and reached profit of about 174 million KM. The fact that the number of employees remained the same despite savings of 300 million KM on the sector level, confirms that the Bosnian banks have undergone internal streamlining processes aiming them at the right expenses, not effecting the employment level and overall economy of the country.

Graph 3: Recovery of profitability of banking sectors in the region

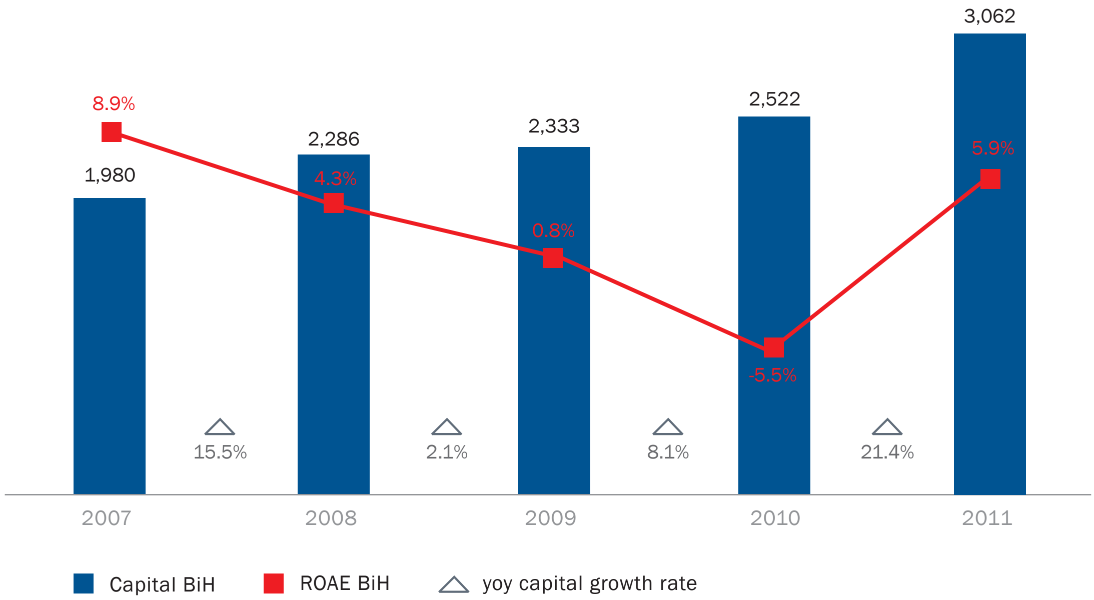


Source: Central banks of respective countries

**Unofficial data from the media, Serbian National Bank has still not published data)*

In the overall development of the banking system in Bosnia and Herzegovina during the past several years, key role was played by European banking groups that hold most of the sector capital.

Graph 4: Development of capital and return to the average capital for Bosnia and Herzegovina



Source: CBBiH

The amount of the banking sector capital in Bosnia and Herzegovina grew in continuity in between 2007 and 2010, although the profitability and return on assets fell. This leads to the conclusion that, although there could be individual exceptions, generally the investors in the financial sector have a long-term vision of the growth of business and faith in the development potentials of the region. Sovereign return of the ROE to the positive field in 2011, although still below the level desired by the investor, shows that the banking in Bosnia and Herzegovina has the strength to establish positive business trends in a difficult business environment, and that it can be a destination for capital with good perspective.

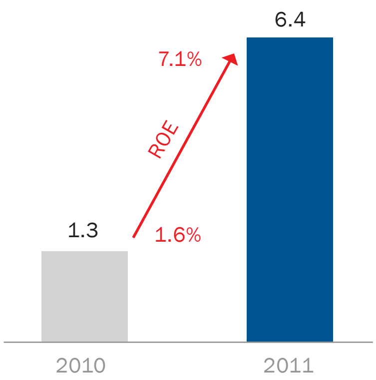
The development so far can be grounds for the assumption that the BiH banking sector profitability on the short term will not return to the negative field. The economic stagnation forecasted for 2012, with expected pressure on the liquidity and stronger focus on domestic financial sources, show that the credit growth can move significantly beyond last year's rates.

However, it is anticipated that the overall stability, liquidity and capitalization will be preserved, with positive trends from the last year that show that the banking sector in Bosnia and Herzegovina is ready to face the challenges that the 2012 carries and open up to the opportunities that the 2013 will offer according to the strong signals of economic recovery both in the Euro Zone and in Bosnia and Herzegovina.

2011 in numbers

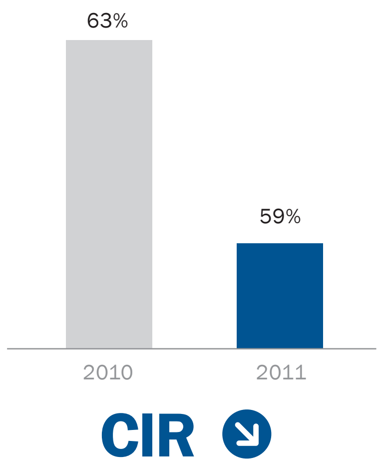
Steep growth of profitability and return on equity

Nett profit in mill. KM / ROE



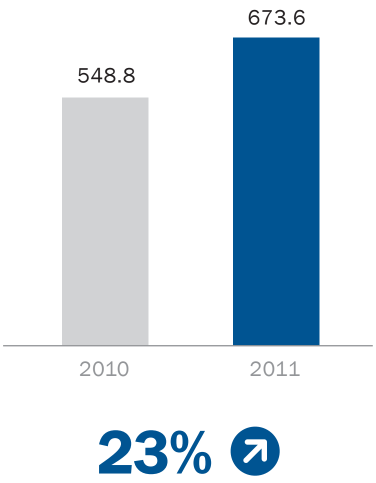
Increased efficacy through streamlining

CIR

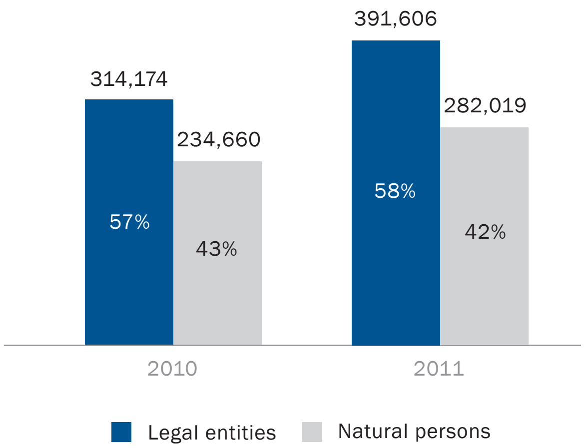


Dynamic presentation on the market from 2010 continues

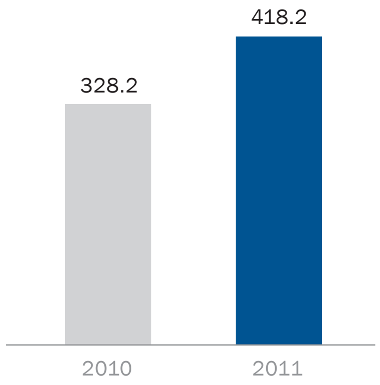
Gross credits expressed in mill. KM



Credits per segments in mill. KM

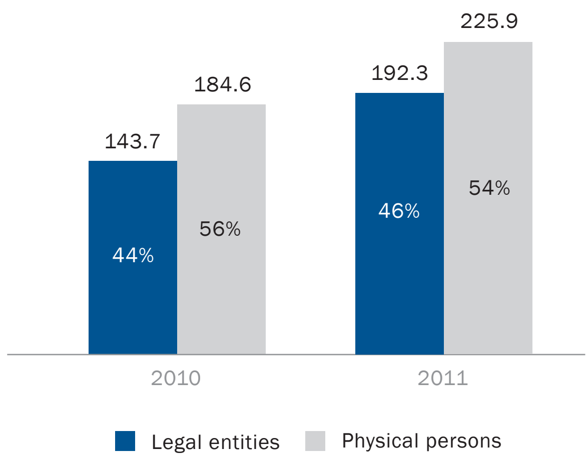


Client deposits in mill. KM



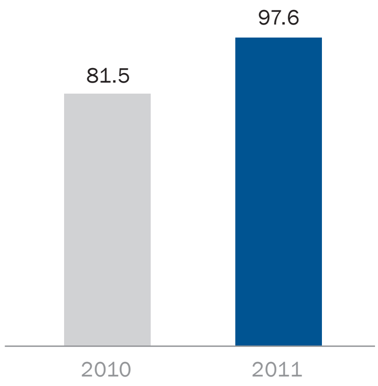
27% ↗

Deposits by client segments in mill. KM



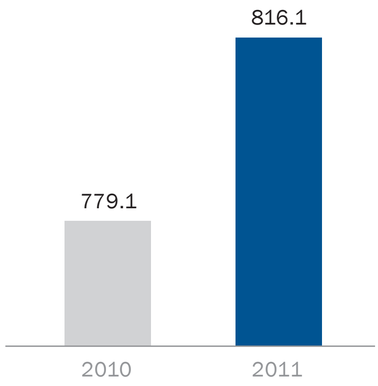
Strengthening capital as assumption for growth and development

Capital in mill. KM



20% ↗

Assets in mill. KM



5% ↗

Companies of the S brand in BiH

Positive synergy through a joint presentation on the market

Integrated action of all members that work within the S brand in Bosnia and Herzegovina and the effects of synergy it offers have certainly contributed to our overall success.

The objective of the establishment and existence of specialist companies under the S brand is to have a complete and comprehensive service responding to different needs of clients in one place – conventional and modern banking service as core business, Leasing as a special financing model for legal entities and individuals, s REAL that assists in the sales and purchase of real estates, and finally, the youngest member of the group, SPremium, as a support to our clients involved in the insurance in relation to the Bank's financial services.

S REAL
Nekretnine

Advisor and partner in the sales and purchases of real estates

s REAL Nekretnine Ltd. is a company established in 2011 as a specialized business for services related to real estates market in Bosnia and Herzegovina. It is owned by the Sparkasse Bank BiH, s REAL Austria and Steiermärkische Sparkasse Graz. Besides real estates brokerage, s REAL offers special services of real estates assessment and offers consulting in the process of purchase, sale or renting immovable properties. This young team under the wings of the S brand has two members currently working on establishment and development of their business, with the intention to enhance capacities and range of activities.

S REAL director, Nedim Džafić, having a extensive experience in the filed of real estates, as well as in the banking sector, sees the future of the company with optimism, and a dose of realism:

"Our main competitive advantage is the synergy with the Sparkasse Bank, that makes it possible for us to offer our clients something that most agencies cannot – a comprehensive real estate purchase process with adequate credit offer and follow up of investors through all stages – from the initial interest in purchase, to closing the financial construction. Of course, there is the strong support by the Austrian mother group, whose far-reaching experience and expertise we can lean on.
The real estates market, as well as other sectors, is under a strong influence of the global economic trends. Clearly, this market has been in stagnation in the period of crisis, 2009-2011, through periodic oscillation of demand and offer, and turbulent changes of prices. However, real estates brokerage lives and happens always in all sorts of economic circumstances, it has its market and its target group, but it demands patience and flexibility. Therefore, we have been following a long-term vision of successful positioning on the market, handling the challenges of today in the best possible way – keeping up with the needs of our clients through continuous communication and personal contacts. This exactly is our strength – we are a small team, so we can react quickly, be flexible and offer an individual approach thus taking advantage of the current market opportunities while building a long-term business sustainability."

Small team, great success story

S-Leasing, as a member of the Austrian Steiermärkische Sparkasse Group, was founded in 2007, with the main office in Sarajevo; as of 2011 it has been present in Banja Luka as well. Majority ownership, 90% of the capital of the SLeasing is in the hands of Steiermärkische Sparkasse from Graz, while the rest of the original capital is owned by the Sparkasse Bank in Bosnia and Herzegovina. The company is active in the field of personal and freight vehicles, machinery and equipment, industrial technology and vessels, therefore it has clients various profiles in its base, from state and public companies, through private companies and entrepreneurs, to natural persons. S-Leasing functions as an independent legal entity and it independently competes on the leasing market, but it also has a competitive advantage in the integrated market approach with the Sparkasse Bank, offering its services in the wide range of offices and affiliates of the Bank, widening its reach in synergy with the bank from year to year. The success and growing market share of S-Leasing is almost out of proportion with the size of the team of nine employees.
This is best illustrated by the data from 2011, excluding financing of real estates:

When we speak of the sales effect and efficacy per employee in the leasing sector, the S-Leasing team is the most dynamic sales force on the market. The leasing sector average annual volume of financing per employee is about 580 thousand Euros, while the same average of the S-Leasing is about 1.5 million Euros. This means that the S-Leasing staff achieves higher annual volume which is by 2.5 times higher than the sector average! That is how this team with its excellent sales energy competes successfully with significantly larger players on the market – in 2011 S-Leasing has increased its new financing volume by 87 percent in comparison to 2010, and increased market share from 6.7 in 2010 to excellent 10.4 percent, which brought it to the fourth position on the market.

S-Leasing team, lead by the management comprised of the director Elma Hošo and executive director Sanel Bosnić, achieve their results in the sales following the mission: To measure success by profitability and growth, and creating new business values through recognition of the clients' needs.

PREMIUM

Insurance experts at the service of clients

As of 2010, the brand got a new member – company for representation in insurance, S-Premium, whose main objective is to meet the insurance needs of the Bank and S-Leasing. The development of new technologies and globalization of trade and business, have brought upon some new and more complex risks and a growing need for new and specific insurance products, whereas their linking to the financial services is a logical sequence.

S-Premium has been established so that the Sparkasse Bank and S-Leasing could adequately service this need of their clients in the way that the “premium team” prepares and closes the agreements on insurance between the clients of the Bank and leading insurance companies, assists and advises clients in implementation or execution of contracts, all this without additional costs for the clients. As well as with the s REAL, the guideline for the establishment of this company is linking non-banking services with what the Bank and the s-Leasing can offer, all together aimed towards a more comprehensive services in one place.

Having completed the process of establishment and having set up the process of operations in 2010, in 2011 S-Premimum has been an active participant that offered complementary services in the field of insurance of the Bank’s crediting activities.

Company director, Nađa Hrustanović, with her small but skilled team, has an ambitious vision: “Our main activity is offering services to clients of our sister companies, but on the long run, we see ourselves turned towards the foreign market as a recognizable broker on the insurance market.”

The most socially responsible company in BiH in 2011

In 2011, among 157 companies from the whole country, the Sparkasse Bank has been selected as the most socially responsible company in Bosnia and Herzegovina, and got the "Dobro11" award of the Mozaik Foundation!

The contest and the selection was done every year by the Mozaik Foundation in cooperation with international organization (UNDP, IFC) and Mašta Agency with the aim to promote those companies that do good – to people inside and outside the company, to the community to the environment.

The companies are evaluated and awarded in the following categories: care for the environment, corporative philanthropy – private companies, corporate philanthropy – small and medium companies, corporate philanthropy – financial institutions and corporate governance and socially responsible business practices.
Having completed a long and thorough process of verification by commissions and media, where all projects needed to be documented, Sparkasse was identified as the most active organization in the category of corporate philanthropy among financial institutions, but also as the most socially-responsible company in the general selection.

This award has made the Sparkasse team especially proud, as it did not mean recognition in terms of status or promotion or even banking. It was not a result of something we said about ourselves, but something we did and others recognized and named "good", a word that says it all – "Dobro11".

Besides numerous sponsorship projects and donations in the segment of sports, social inclusion, culture and education that we are traditionally involved in, this award was earned through our engagement on the projects and innovations that systematically integrated the idea of social responsibility into our everyday actions, and made it a general business concept of the future. Some of those projects are presented in this document!

Socially responsible business strategy

Corporate social responsibility grows beyond donations and sponsorships and integrates into all business functions

Socially responsible business strategy document for 2010-2013 has been drafted following the idea that fulfillment of our economic objectives is only possible in developed and stabile communities, and that this social idea is a guideline of our Austrian mother company, that has cherished it for the past 200 years. In order for the Sparkasse Bank to take the position of a role model of ethical business, which is economically beneficial at the same time, the strategy focuses all activities on topical priorities – education and youth, volunteering and employment of young people, sports, culture, social inclusion and environment.

Throughout 2011, this document has been an official framework for action plans in all business functions, from sales to support, and not only in sponsorship and donations.

Prijatelj za život
Humanitarni fond

Sparkasse humanitarian scholarship fund

One of the projects in 2011 that unified sales function of the Sparkasse Bank with its corporate social responsibility was the establishment of a humanitarian fund of the Bank, “Prijatelj za život/Friend for Life”.

The mission of this Fund is to offer scholarships to students who show high potentials or talents, and belong to one of the following groups: socially vulnerable, special needs, children without parents or minorities. The objective of the Fund is to offer scholarships to a period of one to three years thus supporting and helping the most vulnerable members of the community to finish primary or secondary education.

The Fund has a unique concept in Bosnia and Herzegovina, as it is filled by setting aside percentage from income on products: 2% of revenues from fees for all-purpose loans with guarantees and 4% of revenues from fees for packages, which should together put approximately 15.000 KM, according to the plan of revenues for 2012.

Logo of the Fund has been put on all dissemination materials for the promotion of those products, so our clients would be informed that, using them, together with us, they are doing something good. The first cycle of four scholarships will be awarded after the first trimester of 2012.

Maximum transparence in corporate philanthropy
Guide and public contests for donations and sponsorships

In order to achieve systematization and maximum transparence in awarding funds of the Bank through donations and sponsorships in all social segments, with assistance of the Association Infhouse, we created and published the Guide for Awarding Sponsorships and Donations of the Sparkasee Bank in 2011.

The Guide defines the objectives, which are satisfied employees, satisfied clients, promotion of socially responsible business on the market and empowerment of local communities, and, according to these objectives, areas, right to participate, awarding conditions and criteria, and selection procedure.

The purpose of this Guide is to offer simple and transparent information to all interested individuals, institutions and organization addressing the Sparkasse Bank for support, as well as to help them access the Bank’s funds for socially responsible actions.

Following the regulations in the Guide, the Bank published an open invitation for applications for donations and sponsorships in 2012, and received over 700 applications, some of which were for projects of special social importance. The Commission for the selection of projects to be supported in the following year, besides representatives of the Bank, contained representatives of the NGO sector, who helped us with their expertise and experience evaluate projects in an informed and impartial way.

We clearly were not in the position to respond to all applications, but this systematic and transparent approach to awarding funds in humane and socially-valuable purposes brought two very positive results: on one hand, there was a very positive reaction from the public, as everyone had equal chances to be given support according to very transparent and utterly precise rules, and on the other, we had the chance to put all applications in one place, to review them in an impartial and realistic way, to identify social hot spots and precisely target our support for 2012.

Social responsibility in the spirit of the Sparkasse Bank

Austrian colleagues and Bosnian Sparkasse team together in the humanitarian action to Association Sunce, Mostar

Towards the end of 2011, we organized an action of collecting employee donations for persons with special needs from the Sunce Association from Mostar, but this time with a group spirit. Our colleagues from the mother company Steiermaerkische Sparkasse in Graz organized a humanitarian concert where they performed with their own bands with the desire to support the humane goal of their teammates in Bosnia and Herzegovina. “Sparkasse Rock”, played with social engagement in mind, has crossed the state borders and shown that the idea of social responsibility runs through the corporate culture of the Sparkasse, and that it is something that will set us aside from other groups. The proceeds of the concert in Graz of about 5,000 KM, together with personal contributions from Sparkasse Team from Bosnia and Herzegovina was paid to the account of the Sunce Association.

Another group projects with Austrian colleagues

“Best of South-East”, chance for Bosnian students to go to Austria for studies or internship

The education project that has already become traditional, “Best of South-East” has been organized in 2011, in cooperation of the Steiermaerkische Sparkasse and Karl-Franzens University from Graz. It made it possible for the students of the faculties of economy and laws from Bosnia and Herzegovina to go to Austria to fully financed studies or internship. Two students with the best academic results in Bosnia and Herzegovina were selected for 2011 in very strict selection process in the spirit of the title of the project - The Best of South-East.

For 2012 there are plans for the Sparkasse Bank BiH to get more involved in the project, especially in the selection and campaign, and nomination of students from Bosnia and Herzegovina.

The students with the best results in the past have in the meantime became employees in the mother company in Graz or in our head office in Sarajevo, which goes to show that this project is an exquisite chance for the young people in Bosnia and Herzegovina to get education and career opportunities. Therefore, this is one of the projects to which we have been and will remain very committed.


DIGI
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kg
DS-708


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2

EuroCompany99 d.o.o.

With healthy products to prestigious quality awards

Jozo Đevenica, president of the Assembly and co-owner of the company in a conversation with us

EuroCompany99 Ltd. was founded in 1999. The main activity of this company is import, processing, packing and wholesale of a versatile assortment of healthy food items – nuts, seeds, beans, cereals, dried fruit and dried exotic fruit. Central office of the company is in the town of Ljubuški, address Put za Međugorje b.b. This company has two branch offices in Bosnia and Herzegovina – one in Sarajevo and the other in Jelah. The company owns a sour cherry production and processing plant. They have extended their business to the markets of Croatia and Serbia, where they own plants that also belong to the family.

"Currently we lead the industry in Bosnia and Herzegovina and Croatia. In other countries of the region we are working on a number of activities to attract more and more customers and attain the leading positions."

Having met the highest European standards of control and quality, 50% of the total production of EuroCompany99 is placed on the regional markets, but also on other foreign markets as well.

"We have clients from the whole region. The largest clients in BiH are: Konzum, Mercator, Robot, Delhaiz BH, Interex and Bingo. We export to Croatia for Konzum and Mercator, and to Serbia for IDEA, Mercator, Delta and Veropulos. Macedonian Alkaloid, Montenegrin Ribnica Commerce and Swedish Plivit-trade are also our clients."

Jozo Đevenica, co-owner of the EuroCompany99
Lara Filak, Sparkasse Bank VIP client relationship manager

Back in 1999 when EuroCompany99 was founded, it had just several employees. The first milestone this, now very successful company, crossed was in 2006 when at the same time VAT was introduced and many trade chains opened their shops in BiH. Then in 2009 the company built a new facility in Ljubuški and introduced two new European standards – quality and health safety of products – IFS and BRC – the certificates that opened a gateway to the EU market for this company.

"We were the first in BiH to introduce these two standards. Thanks to that we have seen production and sales growth in the past several years, along with a staff growth. Currently we hire 80 employees in BiH, and 100 employees in total."

Their strategy and success formula are based on a strong raw material quality control, drawn in line with the EU standards and supported by the company's own laboratory, constant improvements of production, sale, marketing, as well as employee education and engaging experts. These strategies are a predisposition of successful fulfillment of all demands and modern market trends. EuroCompany99 offer their customers satisfaction through healthy products, versatility of assortment, continuous and standardized quality, continuity of supplies and fast delivery throughout the year.

Quality certificates, success and recognition on the market:

- **ISO 9001 Certificate nr. 200138**
- **HACCP Certificate nr. 1105**
- **IFS** (based on the demands of trade chains for health-safe products, produced in line with the relevant legislation, made in controlled conditions of controlled raw materials)
- **BRC** (one of the most widely spread international instruments that the retailers use to evaluate their suppliers)

"Our company has been a client of the Sparkasse Bank since 2009. We chose this partnership because this bank recognized our needs and showed swiftness in meeting them. We have been using almost all services that the Sparkasse Bank offers. We have had a great cooperation with your bank and its employees, that we plan to continue in the future, to our mutual pleasure."


Classic
Pileti
Prsa
Pileti
Sa paprikom
Bajra
Pileti
Pašteta
netto 95g
Pileti
Pašteta
Bajra
Juneti
Narezak
netto 100g
Bajra


Bajra
Super Pileti


Juneti

Bajra d.o.o.

Where modern technologies and traditional Bosnian cuisine meet

Šaćir Hodžić, sales manager of the company in a conversation with us

Out of a small shop in Travnik, during the past eleven years, BAJRA Meet Industries have grown into a serious company that has built and kept its place on the domestic market. The main activities of this company are production, processing and trade of meet and meet products. They have managed to put together the modern technologies with the traditional Bosnian meet processing methods, making sure that their assortment, quality and prices meet the expectations of many consumers.

Šaćir Hodžić,
sales manager of the Bajra

From family business to a successful company

This today successful company is an excellent example how small private business works its way through to a stabile company. In 1994 when it was founded as an individual trade shop, this company had only one retail facility in Travnik. Having opened a meet processing shop in 1996, the company registers as a one-person company, and since 2000, with new and improved infrastructure, investments into new equipment, production plants and human resources, its starts working as a limited liability company. It opened a modern motel, several restaurants and ćevapčići bars in the Central Bosnia Canton in 2003 and extended their business to catering. BAJRA Meat Industries today have about 20 branches in the country and hire 240 employees, who use their knowledge and skills to accommodate the challenges of modern business.

“It is through continuous development, innovations and improved qualities that we aim at making our products available, in terms of both location and price, to all categories of consumers. We invest a lot in employee education.”

Production and processing according to European standards

Along with respecting traditional methods of meet processing, they implement modern technological achievements in this field – with continuous quality control and veterinary, chemical and microbiological inspections at certified laboratories.

“Meet production and processing happens using the top quality technological processes and meet industry achievements, in a plant of 10,000 m^2, in line with the highest European standards.”

It is also important to point out that they managed to implement **ISO 9001 : 2005, Haccp and Halal standard.**

Plans, objectives and “pure” production

The aim of this company is to increase production and become industry leader in the former Yugoslavian countries, and to place its products on the European market. They see this development strategy in cooperation with a bank that would give them financial support in projects of environmentally safe disposal of their own waste.

“Due to the flexibility of your procedures, readiness to adjust to the conditions we propose and interest rates that you offer, we have been using many of your services and our cooperation will extend through directing business of all our branches through you bank. We expect the bank that we work with to give us support in winning World Bank’s allocation for energy efficiency, waste disposal and incineration, environmental protection, etc.”


HOMAG


NOVO
AKCIJA

Fructas d.o.o.

Our products make life space and business environment more beautiful

Enver Šuvalija, co-owner of the company in a conversation with us

„We make sure that our customers are satisfied, through offering services of the top quality."

Speaking of the development of the small and medium business in BiH, we can surely state that Fructas Ltd. Sarajevo has become a leading company on the Bosnian market. Keeping up with the trends, this company works in the field of trade and processing of wood, production of office, kitchen, children's room and living room furniture.

Fructas Ltd. was founded in 1994, and it currently has 17 workers. Their success formula is a cornerstone of the company's business. Expanding its operations through introduction of modern trends in technology and design, Fructas placed its products and services on the Bosnian market in 2000, soon becoming the leader and a recognizable brand in this industry.

Enver Šuvalija, co-owner of the Fructas
Aida Bakarević, Sparkasse Bank business client relationship manager

Its strategic improvements of business through meeting the individual needs of each customer and extending its assortment rank Fructas very high in the industry of production and processing of panel furniture, and make it a brand that means quality among professional furniture makers and designers, in Sarajevo Canton and beyond.

Since when has your company been a client of the Sparkasse Bank?
"Since last year. So far we have used their credit services, but there is the idea to expand this cooperation to include other segments."

What do you personally expect from your commercial bank?
"We expect our good cooperation to continue in the same fair-minded manner."

Which values and guidelines does your company follow?
"Sale and production of Fructas products is fully customer-oriented. Fructas Ltd. aims at understanding the needs of its customers, meeting their demands and going beyond their expectations. This is achieved by continuous improvements of product quality, employee training and education, strengthening partnerships with renowned producers. Long-term experience is a guarantee of quality and professionalism."

Stability of our offer, broad assortment of products on the market and modern electronic business networks have placed Fructas on the local market as a brand that very soon became a recognizable brand and a reputed company. Running business this way guarantees quality service and quick delivery. In the difficult business conditions and unsafe survival of small and medium business caused by recession, Fructas Ltd. managed to organize cooperation even on the European market. One of the major importer of particle boards is Lesna from Slovenia.

Who are your major clients?
"We have great cooperation with the following companies: ANS DRIVE, MIPROGRADNJA, MAHAGONI, NINOS, EZAM, HESTENS."
The fact that Fructas Ltd. Sarajevo follows trends and tries to offer its customers the newest materials is shown by the latest novelty – SUPERLUX – high gloss panel, used for production of kitchen cabinets, office, children's room and living room furniture. To justify our customers' trust and our prestigious status on the market and in order to keep up with the trends of design and technology in the wood processing industry, we continuously work on improving and enriching human resources and production plant, with one final objective – SATISFIED CUSTOMER.

Ahmed Zildžić, MD, Sarajevo

With Sparkasse Bank to our own home

Ahmed Zildžić, retail client
Edina Rapa, Sparkasse Bank personal banker

Home buying is one of the crucial issues in the life of everyone, especially today, with all the economic instabilities caused by post-war, social and recession factors.

Roof over one's head was a burning issue for me and my family, not unlike all young families in this country. In terms of conditions that the banks on the Bosnian financial market offer, it was difficult to find a reliable partner to help you with this issue, a partner that is reliable enough, professional, committed and personalized in relations with the client.

We saw that the financial services, packages and products of the Sparkasse Bank are on thee very top of banking services. What certainly helped was a recommendation by my childhood friend who is an employee of this bank.
Edina Rapa, my personal Banker, with her expertise, professional attitude and reliability, is the embodiment of the quality of this bank. I have had an exceptionally professional contact with her, and she lead me through the whole process, from the beginning to the end. I hope that our cooperation will last for many more years, and that it will extend with time.

On behalf of my family, I would like to thank you for the trust you have shown and to with you successful business in 2012.

Financial Statements 2011

SPARKASSE BANK DD

Financial Statements for the Year Ended 31 December 2011

Sparkasse bank d.d.
Financial statements for the year ended 31 December 2011
(All amounts are expressed in BAM thousand unless otherwise stated)

Management Board report

The Management Board is pleased to submit its report together with the audited financial statements for the year ended 31 December 2011.

Review of operations
The result for the year ended 31 December 2011 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 2011 and up to the date of this report, the Supervisory Board was as follows:

Supervisory Board	
Sava Dalbokov	President
Franz Kerber	Member
Hamdija Alagić	Member
Georg Bucher	Member
Renate Ferlitz	Member

As of 31 December 2011 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
Aleksandar Klemenčić	Member (until 01.11.2011)
Slaviša Kojić	Member
Manfred Lackner	Member (from 01.11.2011)

On behalf of the Management Board:

Sanel Kusturica
Director

Sparkasse bank d.d.
Financial statements for the year ended 31 December 2011
(All amounts are expressed in BAM thousand unless otherwise stated)

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 5 to 63 were authorised by the Management Board on 14 March 2012 for issue to the Supervisory Board and are signed below to signify this.

Signed on behalf of the Management Board

Sparkasse Bank dd
SPARKASSE
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Sanel Kusturica
Director

Zahida Karić
Executive Director

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

14 March 2012

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 2011 and the statements of comprehensive income, changes in equity and cash flows statement 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 these financial statements in accordance with the 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 that 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 judgement, 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 controls relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of the Bank as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with the Law on accounting and auditing in the Federation of Bosnia and Herzegovina, the Law on Banks and Federal Banking Agency decisions.

Sarajevo, 14 March 2012

PricewaterhouseCoopers d.o.o. — „PRICEWATERHOUSECOOPERS D.O.O." SARAJEVO

PricewaterhouseCoopers d.o.o. Sarajevo

Aida Selimović, Certified auditor

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Registered at the Cantonal court Sarajevo, Reg.No. 1-24380
Account No: 1610000082540027, Raiffeisen Bank
Tax No.:4200881410005; VAT No.:200881410005

Sparkasse bank d.d.
Financial statements for the year ended 31 December 2011
(All amounts are expressed in BAM thousand unless otherwise stated)

Statement of comprehensive income

	Note	2011.	2010.
			Restated (Note 3)
Interest and similar income	6	47,997	41,776
Interest expense and similar charges	7	(14,070)	(11,765)
Net interest income		**33,927**	**30,011**
Impairment losses	14	(11,583)	(14,006)
Net interest income after provisions for impairment		**22,344**	**16,005**
Fee and commission income	8	12,708	11,136
Fee and commission expense	9	(1,609)	(1,459)
Net foreign exchange gains	10	1,343	1,021
Other operating income	11	1,600	718
Personnel expenses	12	(15,208)	(14,693)
Depreciation and amortisation expenses	25,26,27	(2,327)	(1,897)
Other administrative expenses	13	(13,121)	(11,709)
Release of other provisions	15	34	1,081
Recoveries (previously written-off items)	16	700	1,102
PROFIT BEFORE INCOME TAX		**6,464**	**1,305**
Income tax expense	17	(73)	(39)
PROFIT FOR THE YEAR		**6,391**	**1,266**
Other comprehensive income:			
Loss on available for sale financial assets		(281)	(81)
TOTAL COMPREHENSIVE INCOME		**6,110**	**1,185**
Earnings and diluted earnings per share (in BAM)	**18**	**7.81**	**1.66**

Notes on pages 9 to 63 form an integral part of these financial statements.

Sparkasse bank d.d.
Financial statements for the year ended 31 December 2011
(All amounts are expressed in BAM thousand unless otherwise stated)

Statement of financial position

	Note	31 December 2011	31 December 2010 Restated Note 3	1 January 2010 Restated Note 3
ASSETS				
Cash and cash reserves	19	33,454	27,648	44,761
Obligatory reserve with the central bank	20	46,706	43,764	39,703
Placements with and loans and advances to other banks	21	60,476	152,534	135,865
Loans and advances to customers	22	618,296	504,654	424,034
Financial assets available for sale	23	17,261	11,021	254
Other assets	24	1,195	1,604	1,265
Property and equipment	25	28,920	28,992	10,896
Investment property	26	7,123	6,289	-
Intangible assets	27	2,670	2,615	2,622
TOTAL ASSETS		**816,101**	**779,121**	**659,400**
LIABILITIES				
Current accounts and deposits from banks	28	282,043	265,333	169,601
Current accounts and deposits from customers	29	418,156	328,245	285,476
Borrowings	30	6,713	94,798	115,145
Other provisions	31	5,372	5,303	5,940
Other liabilities	32	6,249	3,984	2,965
Total liabilities		**718,533**	**697,663**	**579,127**
SHAREHOLDERS' EQUITY				
Share capital	33	86,473	76,473	76,473
Share premium		3,000	3,000	8,372
Statutory reserves		2,033	125	1,235
Regulatory reserves		33	33	675
Revaluation reserves – AFS		(362)	(81)	-
Retained earnings / (Accumulated losses)		6,391	1,908	(6,482)
Total shareholders' equity		**97,568**	**81,458**	**80,273**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**816,101**	**779,121**	**659,400**

Notes on pages 9 to 63 form an integral part of these financial statements.

Sparkasse bank d.d.
Financial statements for the year ended 31 December 2011
(All amounts are expressed in BAM thousand unless otherwise stated)

Statement of changes in equity

	Share capital	Share premium	Statutory reserves	Regulatory reserves	Revaluation reserves – AFS	Retained earnings	Total
Previously reported balance as at 31 December 2009	**76,473**	**8,372**	**1,235**	**-**	**-**	**(6,482)**	**79,598**
Effects of adoption of new or revised standards (Note 3)	-	-	-	675	-	-	675
Balance as at 1 January 2010 (restated)	**76,473**	**8,372**	**1,235**	**675**	**-**	**(6,482)**	**80,273**
Allocation of 2009 result	-	(5,372)	(1,110)	-	-	(6,482)	-
Effect between FBA and IAS 39 provisions (*)	-	-	-	(642)	-	-	(642)
Change in AFS revaluation reserve	-	-	-	-	(81)	-	(81)
Profit for the year	-	-	-	-	-	1,908	1,908
Balance as at 31 December 2010	**76,473**	**3,000**	**158**	**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**

Notes on pages 9 to 63 form an integral part of these financial statements.

(*) – Balance related to calculated effect between FBA provisions and adoption of IAS 39 provisions.

Sparkasse bank d.d.
Financial statements for the year ended 31 December 2011
(All amounts are expressed in BAM thousand unless otherwise stated)

Cash flow statement

	Note	2011.	2010.
OPERATING ACTIVITIES			
Profit before tax		6,464	1,305
Adjustments:			
Depreciation and amortisation	25, 26, 27	2,327	1,897
Loss on disposal of fixed assets		81	283
Release of provisions	31	70	(637)
Increase in impairment allowances	14	11,583	14,006
Cash flows from operating activities before changes in operating assets and liabilities		**20,525**	**16,854**
Increase in obligatory reserve with the Central Bank		(2,942)	(4,061)
Decrease / (increase) in placements with and loans and advances to other banks		92,059	(16,672)
Increase in loans and advances to customers		(124,890)	(93,836)
Decrease / (increase) in other assets		12	(900)
Increase in deposits from banks		16,710	95,732
Increase in deposits from customers		89,911	42,769
Increase in other liabilities		2,308	986
NET CASH INFLOW FROM OPERATING ACTIVITIES		**93,693**	**40,872**
Income tax paid		(62)	(13)
Net cash flow from operating activities		**93,631**	**40,859**
Cash flow from investing activities			
Purchase of financial assets available for sale		(6,515)	(11,067)
Purchase of property and equipment	25	(1,444)	(19,455)
Purchase of investment property	26	(922)	(6,128)
Purchase of intangible assets	27	(859)	(975)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(9,740)**	**(37,625)**
Cash flow from financing activities			
Repayment of borrowings		(88,085)	(20,347)
Issued share capital		10,000	-
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		**(78,085)**	**(20,347)**
Net increase / (decrease) in cash and cash equivalents		**5,806**	**(17,113)**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**19**	**27,648**	**44,761**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**19**	**33,454**	**27,648**

Notes on pages 9 to 63 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 2011. 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.

Sparkasse bank d.d.
Notes to the financial statements for the year ended 31 December 2011
(All amounts are expressed in BAM thousand unless otherwise stated)

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).

These financial statements have been prepared under the historical cost convention, as modified by the revaluation available for sale securities.

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.

The Bank has not applied the following standards, amendments and interpretations, which are effective for 2011 but have not been translated in the Federation of Bosnia and Herzegovina and are not relevant for the Bank's operations:

- **Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).** IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. As a result of the revised standard, the Company now also discloses contractual commitments to purchase and sell goods or services to its related parties.
- **Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).** The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

Other revised standards and interpretations effective for the current period.

- **IFRIC 19 "Extinguishing financial liabilities with equity instruments",** amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction" relating to prepayments of minimum funding requirements and amendments to IFRS 1 "First-time adoption of IFRS", did not have any impact on these financial statements.

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later, and which the Bank has not early adopted.

- **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.
- **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.

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Notes to the financial statements for the year ended 31 December 2011
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2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

- **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.
- **IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013).** The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.
- **Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011).** The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood.
- **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.

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2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

- **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 offsetting 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.
- **Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS",** relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, the amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, and 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, will not have any impact on these financial statements.

Unless otherwise described above, the new standards and interpretations 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 2011 and 2010. 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

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Notes to the financial statements for the year ended 31 December 2011
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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 2011 BAM	31 December 2010 BAM
EUR 1	1.95583	1.95583
USD 1	1.511577	1.472764

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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

BThe 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.

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Notes to the financial statements for the year ended 31 December 2011
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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 fulfill 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.

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).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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Notes to the financial statements for the year ended 31 December 2011
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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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:

	2011.	2010.
Buildings	33-50 years	33-77 years
Computers	3 years	3 years
Vehicles	5 years	5 years
Furniture and other office equipment	5-7 years	5-7 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.

(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 (77 years in 2010).

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Leased assets – leases

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.

As of 31 December 2011, the Bank did not identify any impairment indicators and no impairment of non-financial assets was recorded.

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Notes to the financial statements for the year ended 31 December 2011
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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(r) Comparative information

In the Federation of Bosnia and Herzegovina, based on the new regulation effective starting from 1 January 2011, bookkeeping records and financial statements are required to be prepared in accordance with the International Financial Reporting Standards/International accounting standards as adopted in the Federation of Bosnia and Herzegovina.

The principal change relates to the adoption of IAS 39 – Financial instruments: Recognition and Measurement, when calculating risk provisions. The Bank is now required to treat risk provisions as deductions from gross assets, whereas in prior periods risk provisions were reported in liabilities, under provisions. Additionally in accordance with the requirements of IAS 32 – Financial instruments: Presentation, the Bank discloses financial instruments together with related interests.

Accounting for the provision for loan losses is carried out in accordance with the requirements of IAS 39, but it also remains as an obligation for banks to perform the calculation and to report general and specific reserves in accordance with the FBA 'Decision on minimum standards for credit risk management and asset classification'.

The change in accounting policy resulting from the adoption of IAS 39 has been applied retrospectively, resulting in a restatement of opening loan loss reserves. The impact of the change in the loan loss provisioning accounting policy has been adjusted through opening statutory reserves for 2010 (refer to the statement of change in equity).

In the table below adjustments were made for provisions in accordance with IAS 39, resulting in restatement of total comprehensive income for 2010.

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Notes to the financial statements for the year ended 31 December 2011
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Statement of comprehensive income

	Notes	Previously reported 31 December 2010	Restatement	31 December 2010 Restated
Interest and similar income	6	41,776	-	41,776
Interest expense and similar charges	7	(11,765)	-	(11,765)
Net interest income		**30,011**	**-**	**30,011**
Fee and commission income	8	11,136	-	11,136
Fee and commission expense	9	(1,459)	-	(1,459)
Net fee and commission income		**9,677**	**-**	**9,677**
Net foreign exchange gains	10	1,021	-	1,021
Other operating income	11	718	-	718
INCOME FROM OPERATING ACTIVITIES		**41,427**	**-**	**41,427**
Personnel expenses	12	(14,693)	-	(14,693)
Depreciation and amortisation expenses	25,26,27	(1,897)	-	(1,897)
Other administrative expenses	13	(11,709)	-	(11,709)
Operating expenses		**(28,299)**	**-**	**(28,299)**
PROFIT BEFORE IMPAIRMENT LOSSES, PROVISIONS AND INCOME TAX		**13,128**		**13,128**
Impairment losses	14	(13,396)	(610)	(14,006)
(Losses) / gains from other provisions	15	(175)	1,256	1,081
Recoveries (previously written-off items)	16	2,390	(1,288)	1,102
PROFIT / (LOSS) BEFORE INCOME TAX		**1,947**	**(642)**	**1,305**
Income tax expense	17	(39)	-	(39)
PROFIT / (LOSS) FOR THE YEAR		**1,908**	**(642)**	**1,266**
Other comprehensive income:				
Loss on AFS financial assets		(81)	-	(81)
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		**1,827**	**(642)**	**1,185**
Earnings / (loss) per share (in BAM)	**18**	**2.49**	**(0.83)**	**1.66**

Profit or loss (statement of comprehensive income) disclosure for year ended 2010 is restated in order to comply with the change in accounting policies for recognition of impairment of financial assets and liabilities in accordance with IAS 8 – Accounting policies, changes in accounting estimates and errors, for the following:

- Change in Impairment losses and losses from other provisions calculated in accordance with IAS 39 – Financial instruments, recognition and measurement and IAS 37 – Provisions, contingent liabilities and contingent assets, previously calculated in accordance with FBA provisioning rules
- Recoveries have been restated so as to exclude collection of previously written off items as the collection is now presented through impairment losses

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Statement of financial position – opening balances for 2010

	Note	1 January 2010	Restatement	1 January 2010 Restated
ASSETS				
Cash and cash reserves	19	44,761	-	44,761
Obligatory reserve with the central bank	20	39,703	-	39,703
Placements with and loans and advances to other banks	21	135,826	39	135,865
Loans and advances to customers	22	420,250	3,784	424,034
Financial assets available for sale	23	254	-	254
Other assets	24	1,293	(28)	1,265
Property and equipment	25	10,896	-	10,896
Investment property	26	-	-	-
Intangible assets	27	2,622	-	2,622
TOTAL ASSETS		**655,605**	**3,795**	**659,400**
LIABILITIES				
Current accounts and deposits from banks	28	169,601	-	169,601
Current accounts and deposits from customers	29	285,476	-	285,476
Borrowings	30	115,145	-	115,145
Other provisions	31	2,820	3,120	5,940
Other liabilities	32	2,965	-	2,965
Total liabilities		**576,007**	**3,120**	**579,127**
SHAREHOLDERS' EQUITY				
Share capital	33	76,473	-	76,473
Share premium		8,372	-	8,372
Statutory reserves		1,235	-	1,235
Regulatory reserves		-	675	675
Revaluation reserves - AFS		-	-	-
Retained earnings / (Accumulated losses)		(6,482)	-	(6,482)
Total shareholders' equity		**79,598**	**675**	**80,273**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**655,605**	**3,795**	**659,400**

Reclassifications in the statement of financial position relate to:

- change in the amount of impairment of loans and receivables and Off-balance sheet commitments and contingent liabilities as result of change in the change in accounting policies for recognition of impairment of financial assets and recognition of commitments and contingent liabilities
- change of the amount of retained earnings as result of application of different accounting policy of recognition of impairment of financial assets and recognition of commitments and contingent liabilities.

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Notes to the financial statements for the year ended 31 December 2011

(All amounts are expressed in BAM thousand unless otherwise stated)

Statement of financial position

	Note	31 December 2010	Restatement	31 December 2010 Restated
ASSETS				
Cash and cash reserves	19	27,648	-	27,648
Obligatory reserve with the central bank	20	43,764	-	43,764
Placements with and loans and advances to other banks	21	152,433	101	152,534
Loans and advances to customers	22	502,850	1,804	504,654
Financial assets available for sale	23	11,021	-	11,021
Other assets	24	1,605	(1)	1,604
Property and equipment	25	28,992	-	28,992
Investment property	26	6,289	-	6,289
Intangible assets	27	2,615	-	2,615
TOTAL ASSETS		**777,217**	**1,904**	**779,121**
LIABILITIES				
Current accounts and deposits from banks	28	265,333	-	265,333
Current accounts and deposits from customers	29	328,245	-	328,245
Borrowings	30	94,798	-	94,798
Other provisions	31	3,432	1,871	5,303
Other liabilities	32	3,984	-	3,984
Total liabilities		**695,792**	**1,871**	**697,663**
SHAREHOLDERS' EQUITY				
Share capital	33	76,473	-	76,473
Share premium		3,000	-	3,000
Statutory reserves		125	-	125
Regulatory reserves FBA		-	33	33
Revaluation reserves - AFS		(81)	-	(81)
Retained earnings / (Accumulated losses)		1,908	-	1,908
Total shareholders' equity		**81,425**	**33**	**81,458**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**777,217**	**1,904**	**779,121**

The third statement of financial position as of 1 January 2010 is presented in these financial statements as a result of the above described changes in presentation. This requirement to present the additional opening statement of financial position, when the entity has made a restatement or reclassification, extends to the information in the related notes. Management considered materiality and concluded that it is sufficient for an entity to present such information only in those notes that have been impacted by a restatement or a reclassification, and state in the financial statements that the other notes have not been impacted by the restatement or reclassification. The omission of the notes to the additional opening statement of financial position is, therefore, in management's view, not material.

The reclassifications had an impact on information in notes 4, 14, 15, 16, 18, 21, 22, 24, 31 and 36 and had no impact on any other captions in the financial statements and related note disclosures.

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.

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 is not exposed to credit risk related to the following assets:

- cash,
- funds held at the current account with the Central Bank of Bosnia and Herzegovina,
- funds held at the current accounts with foreign banks with investment ranking,
- investments or investment and contingent liabilities parts which are collateralized by cash deposit at our Bank, on the condition that it is regulated by the contract that until the collection of Bank receivables or the ceasing of Bank's contingent liability cash deposit as a collateral is linked to a specific credit-guarantee work.

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.

4.1.2 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	
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).

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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:

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

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

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	
	2011	2010
Risk bearing balance sheet items:		
Placements with and loans and advances with other banks	60,476	152,534
Loans and advances to corporate and SME customers	129,096	110,837
Loans and advances to retail customers	225,880	195,929
Financial assets available for sale	17,261	11,021
Other financial assets	909	1,449
Subtotal	**433,622**	**471,770**
Risk bearing off-balance sheet items:		
Loan commitments	61,244	38,807
Financial guarantees and letter of credits	28,255	27,393
Subtotal	**89,499**	**66,200**
Total	**523,121**	**537,970**

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 (40-50% for residential properties, 33-50% for business premises and 25-40% for equipment). Estimated value of collateral is updated in accordance with internal procedure for collateral revaluation on an annual basis.

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Total carrying value	Individual impairment (IA)	Collective impairment (CA)	Total net carrying value
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**
31 December 2010				
Cash and balances with the Central Bank	71,416	-	(4)	71,412
Due from other banks	152,537	-	(3)	152,534
Loans to customers	548,834	(18,464)	(25,716)	504,654
Securities available-for-sale	11,246	-	(225)	11,021
Other financial assets	2,666	-	(1,214)	1,452
	786,699	**(18,464)**	**(27,162)**	**741,073**

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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 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	**764,234**	**(13,080)**	**70,249**	**(44,031)**	**834,213**	**(57,111)**
31 December 2010						
Placements with and loans and advances with other banks	152,537	(3)	-	-	152,537	(3)
Cash and balances with Central bank	71,416	(4)	-	-	71,416	(4)
Loans and advances to retail customers	225,759	(3,220)	8,901	(6,311)	234,660	(9,531)
Loans and advances to corporate customers	268,855	(12,193)	45,319	(22,456)	314,174	(34,649)
AFS	11,246	(225)	-	-	11,246	(225)
Other financial assets	1,484	(32)	1,182	(1,182)	2,666	(1,214)
Total	**731,297**	**(15,677)**	**55,402**	**(29,949)**	**786,699**	**(45,626)**

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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 2011	Gross maximum exposure 2010
Wholesale and retail trade	186,170	125,829
Manufacture	111,319	94,332
Real estate, renting and business activities	19,373	21,086
Transport, storage and communication	22,683	19,059
Construction	19,710	18,878
Financial intermediation	4,523	9,152
Hotels and restaurants	5,836	6,482
Agriculture, hunting and forestry	5,667	5,432
Education	3,900	4,558
Health and social work	4,396	2,206
Public Administration	1,766	2,028
Mining and quarrying	1,689	1,557
Other	4,574	3,575
Retail	282,019	234,660
TOTAL	**673,625**	**548,834**

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	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**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Bosnia and Herzegovina	OECD Countries	Non-OECD Countries	Total
Placements with and loans and advances with other banks	5,280	110,475	36,782	152,537
Loans and advances to retail customers	234,660	-	-	234,660
Loans and advances to corporate customers	314,174	-	-	314,174
Financial investments available for sale	651	24	10,571	11,246
Other financial assets	2,666	-	-	2,666
31 December 2010	**557,431**	**110,499**	**47,353**	**715,283**

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 2011 the Bank reprogrammed and restructured 23 problematic clients (18 corporate and 5 retail) with total amount of BAM 13,040 thousand (in 2010: BAM 21,316 thousand).

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1.6. Aging analysis of loans and advances

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

	Neither past due nor impaired					
	High level of quality	Standard level of quality	Past due and impaired	Collective impairment	Specific impairment	Total
31 December 2011						
Loans and advances to banks	60,478	-	-	(2)	-	60,476
Loans and advances to corporate	4,242	327,749	59,615	(9,845)	(34,969)	346,792
Loans and advances to retail	1,045	271,895	9,079	(2,989)	(7,524)	271,506
TOTAL	**65,765**	**599,644**	**68,694**	**(12,836)**	**(42,493)**	**678,774**
31 December 2010						
Loans and advances to banks	110,476	42,061	-	(3)	-	152,534
Loans and advances to corporate	1,584	266,076	46,514	(12,193)	(22,456)	279,525
Loans and advances to retail	1,064	225,598	7,998	(3,220)	(6,308)	225,132
TOTAL	**113,124**	**533,735**	**54,512**	**(15,416)**	**(28,764)**	**657,191**

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 2011			
Gross investments	282,019	391,606	673,625
Collateral value	46,660	217,302	263,962
31 December 2010			
Gross investments	234,660	314,174	548,834
Collateral value	28,439	173,599	202,038

The Bank has the possibility to collect receivables by overtaking collaterals. Total amount of repossessed assets in 2011 is BAM 1 thousand (2010: BAM 451thousand).

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1.7. Aging analysis of neither past due nor impaired assets

The following table presents aging analysis of past due and not impaired balance sheet items ("high level of quality"), at gross value, excluding any type of collateral.

	Up to 30 days	From 31 to 60 days	From 61 to 90 days	More than 91 days	Total
31 December 2011					
Loans and advances to banks	60,478	-	-	-	60,478
Loans and advances to retail	1,022	23	-	-	1,045
Loans and advances to corporate	4,242	-	-	-	4,242
TOTAL	**65,742**	**23**	**-**	**-**	**65,765**
Fair value of collateral	**65,742**	**23**	**-**	**-**	**65,765**
31 December 2010					
Loans and advances to banks	110,476	-	-	-	110,476
Loans and advances to retail	1,012	50	2	-	1,064
Loans and advances to corporate	1,407	177	-	-	1,584
TOTAL	**112,895**	**227**	**2**	**-**	**113,124**
Fair value of collateral	**112,895**	**227**	**2**	**-**	**113,124**

4.1.8. Past due and impaired assets

The following table presents aging 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 2011							
Collective risk provision	9,088	(7,535)	1,553	6,892	(5,027)	1,865	3,418
Individual risk provision	-	-	-	52,528	(29,940)	22,588	22,588
	9,088	**(7,535)**	**1,553**	**59,420**	**(34,967)**	**24,453**	**26,006**
31 December 2010							
Collective risk provision	7,748	(6,061)	1,687	5,935	(4,183)	1,752	3,439
Individual risk provision	250	(250)	-	40,522	(18,273)	22,249	22,249
	7,998	**(6,311)**	**1,687**	**46,457**	**(22,456)**	**24,001**	**25,688**

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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 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**

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

31 December 2010	Up to 1 month	1 - 3 months	3 - 12 months	1 -5 years	Over 5 years	Total
Assets						
Cash reserves	27,652	-	-	-	-	27,652
Obligatory reserves with the central bank	43,764	-	-	-	-	43,764
Placements with and loans and advances to other banks	147,312	417	1,287	3,853	-	152,869
Loans and advances to customers	54,224	47,111	172,274	281,320	91,582	646,511
Financial assets available for sale	-	-	284	11,536	299	12,119
Other financial assets	1,604	-	-	-	-	1,604
Total Assets	**274,556**	**47,528**	**173,845**	**296,709**	**91,881**	**884,519**
Liabilities						
Current accounts and deposits from banks	19,181	-	50,661	10,553	203,896	284,291
Current accounts and deposits from customers	162,489	22,335	83,977	65,248	2,080	336,129
Borrowings	95,011	50	145	130	92	95,428
Other financial liabilities	2,747	76	276	240	645	3,984
Total liabilities	**279,428**	**22,461**	**135,059**	**76,171**	**206,713**	**719,832**
Liquidity gap (assets – liabilities)	**(4,872)**	**25,067**	**38,786**	**220,538**	**(114,832)**	**164,687**

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.

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 2011.

Concentrations of currency risk of assets and liabilities

The Bank had the following significant currency positions:

31 December 2011	BAM	EUR	USD	Other currencies	Total
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)

31 December 2010	BAM	EUR	USD	Other currencies	Total
Assets					
Cash reserves	19,264	5,860	422	2,102	27,648
Obligatory reserves with the central bank	43,764	-	-	-	43,764
Placements with and loans and advances to other banks	5,222	141,232	5,524	556	152,534
Loans and advances to customers	118,647	386,007	-	-	504,654
Financial assets available for sale	616	10,405	-	-	11,021
Other financial assets	1,492	108	4	-	1,604
Total assets	**189,005**	**543,612**	**5,950**	**2,658**	**741,225**
Liabilities					
Current accounts and deposits from banks	292	265,041	-	-	265,333
Current accounts and deposits from customers	187,362	132,584	6,007	2,292	328,245
Borrowings	306	94,492	-	-	94,798
Other financial liabilities	3,548	435	-	1	3,984
Total liabilities	**191,508**	**492,552**	**6,007**	**2,293**	**692,360**
Net foreign currency position	**(2,503)**	**51,060**	**(57)**	**365**	**48,865**

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

	2011	2010
Profit or loss	65	31

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 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**

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

31 December 2010	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
Financial assets								
Cash reserves	20,172	7,476	-	-	-	-	27,648	-
Obligatory reserves with the central bank	-	43,764	-	-	-	-	43,764	-
Placements with and loans and advances to other banks	-	152,534	-	-	-	-	152,534	152,534
Loans and advances to customers	-	341,125	5,352	155,873	2,219	85	504,654	24,534
Financial assets available for sale	293	10,728	-	-	-	-	11,021	10,728
Other financial assets	1,604	-	-	-	-	-	1,604	-
Total assets	**22,069**	**555,627**	**5,352**	**155,873**	**2,219**	**85**	**741,225**	**187,796**
Liabilities								
Current accounts and deposits from banks	361	19,515	-	245,457	-	-	265,333	17,602
Current accounts and deposits from customers	72,278	226,194	6,834	14,148	8,313	478	328,245	41,643
Borrowings	-	94,402	3	194	130	69	94,798	301
Other financial liabilities	3,984	-	-	-	-	-	3,984	-
Total liabilities	**76,623**	**340,111**	**6,837**	**259,799**	**8,443**	**547**	**692,360**	**59,546**
Interest rate gap	**(54,554)**	**215,516**	**(1,485)**	**(103,926)**	**(6,224)**	**(462)**	**48,865**	**128,250**

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 2011, 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 2011 would increase/decrease by BAM 1.456 thousand (2010: decrease/increase by BAM 2,142 thousand).

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

	Up to 1 year	1-5 years	Over 5 years	Total
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**
31 December 2010				
Loan commitments	33,100	3,805	1,902	38,807
Financial guarantees and letters of credit	26,022	1,371	-	27,393
Operating lease commitments	1,457	3,320	838	5,615
Total	**60,579**	**8,496**	**2,740**	**71,815**

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 2011 the Bank incurred a net loss amounting to BAM 281 thousand based on the decrease in value of available for sale financial assets recognised directly in capital (2010: BAM 81 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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

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.

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4. UPRAVLJANJE FINANSIJSKIM RIZIKOM (NASTAVAK)

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 2011 and 2010 prepared in accordance with Agency regulations.

	2011	2010
Bank's net capital according to Banking Agency regulations	102,073	87,992
Risk from risk weighted assets and loan equivalents	687,774	612,556
Weighted operational risk	40,109	31,896
Total weighted risk	**727,883**	**644,452**
Capital adequacy ratio	**14.0%**	**13.7%**

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.

In 2011 the new regulation issue by FBA related to impairment of financial assets became effective, which requires banks to assess impairment allowances in accordance with IAS 39 – Financial instruments, recognition and measurement. However there is still no official opinion issued by the Tax Authorities of Federation of Bosnia and Herzegovina in regard to the tax treatment of the impairment allowance expenses. According to the currently applicable regulation all specific risk provisions are tax allowable expenses. This is the interpretation applied by the Bank for the calculation of income tax expense for 2011. The interpretation of tax legislation by tax authorities related to the change of methodology for impairment allowance calculation may not coincide with that of the management.

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.

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5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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 (2011 – 7% and 2010 – 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 bonds. Since at the balance sheet date Government of Bosnia and Herzegovina does not have any issued 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

	2011	2010 Restated
Interest on loans to corporate	24,404	23,892
Interest on loans to retail	21,752	16,924
Interest on placements with and loans and advances to other banks	1,031	486
Interest on investments in bonds	507	280
Interest on placements with the central bank	303	194
Total	**47,997**	**41,776**

7. INTEREST AND SIMILAR EXPENSE

	2011	2010 Restated
Interest on retail deposits	5,088	4,522
Interest on corporate' deposits	2,840	3,706
Interest on deposits and borrowings from banks	6,142	3,537
Total	**14,070**	**11,765**

8. FEE AND COMMISSION INCOME

	2011	2010 Restated
Fees from payment transactions	10,346	9,158
Fees from foreign exchange transactions	1,459	1,009
Fees from off-balance-sheet transactions	903	969
Total	**12,708**	**11,136**

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9. FEE AND COMMISSION EXPENSE

	2011	2010 Restated
Fees and commissions for payment transactions	1,344	1,116
Other fees to banks	265	343
Total	**1,609**	**1,459**

10. NET FOREIGN EXCHANGE GAINS

	2011	2010 Restated
Foreign exchange trading gains, net	1,387	1,017
Foreign exchange translation gains, net	(44)	4
Total	**1,343**	**1,021**

11. OTHER OPERATING INCOME

	2011	2010 Restated
Rental income	583	241
Release of accruals for IT services	301	-
Other	716	477
Total	**1,600**	**718**

12. TROŠKOVI ZAPOSLENIH

	2011	2010 Restated
Salaries	7,329	6,926
Taxes and contributions	5,298	4,599
Other	2,581	3,168
Total	**15,208**	**14,693**

The average number of employees of the Bank during the years ended 31 December 2011 and 2010 was 432 and 425 respectively.

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13. OTHER ADMINISTRATIVE EXPENSES

	2011	2010 Restated
Services	2,503	1,984
Rent	1,578	1,449
Insurance	1,369	1,118
Communication costs	1,286	1,263
Advertising and marketing	1,173	988
Maintenance	1,085	845
Transportation	967	862
Energy cost	889	669
Other taxes and dues	693	657
Material expenses	554	518
Fees to Agency	477	446
Fees to Supervisory Board members	135	110
Other	412	800
Total	**13,121**	**11,709**

14. IMPAIRMENT LOSSES

	Note	2011	2010 Restated
Loans and advances to customers	22	11,248	13,244
Other assets	24	342	539
Financial instruments available-for-sale	23	(6)	220
Placements with and loans and advances to banks	21	(1)	3
Total		**11,583**	**14,006**

15. RELEASE OF OTHER PROVISIONS

	Note	2011	2010 Restated
Provisions for legal proceedings	31	(192)	133
Provisions for off-balance sheet items	31	158	(1,214)
Total		**(34)**	**(1,081)**

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16. RECOVERIES (PREVIOUSLY WRITTEN-OFF ITEMS)

	2011	2010 Restated
Income from collection of written-off interest receivables	700	1,094
Income from collection of written-off other receivables	-	8
Total	**700**	**1,102**

17. INCOME TAX

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

Income tax expense recognised in income statement

	2011	2010
Current tax expense	73	39
Income tax charge for the year	73	39

The official tax rate within the country is 10% (2010: 10%).

Reconciliation of the accounting profit and income tax expense

	2011	2010
Profit before income tax	6,464	1,947
- non-taxable income	-	(141)
- non-deductible expenses	311	1,732
Taxable profit	6,775	3,538
Deduction: tax reliefs from losses carried forward	(1,130)	(3,538)
Taxable profit in FBiH	5,645	-
Taxable profit in Brčko District	519	390
Taxable profit in Republic of Srpska	220	-
Income tax profit	6,384	390
Income tax charge for the year before reliefs	(638)	39
Deduction: tax reliefs from foreign shareholding	547	-
Deduction: tax paid in BD and RS	18	-
Income tax charge for the year	**(73)**	**(39)**
Effective tax rate (%)	**1%**	**2%**

The tax relief 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.

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17. INCOME TAX (CONTINUED)

In accordance with Law on corporate profit tax, tax losses can be carried forward for relief against profit of future accounting periods, but for not longer than 5 years. Tax losses can be carried forward as follows:

	2011	2010
Up to 5 years	-	-
Up to 4 years	-	1,130
Up to 3 years	-	-
Up to 2 years	-	-
Up to 1 years	-	-
	-	**1,130**

Following the utilisation of BAM 1,130 thousand of tax losses disclosed in the table above, the Bank has now utilised all available tax losses.

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

	2011	2010 Restated
Weighted average number of shares	818,157	764,733
Net profit	6,391	1,266
Basic and diluted earnings per share (in BAM)	**7.81**	**1.66**

19. CASH AND CASH RESERVES

	2011	2010 Restated
Cash in hand	25,317	20,168
Giro account with central bank	7,325	5,661
Current accounts with other banks in foreign currencies	812	1,819
Cheques in course of collection	3	4
Total before impairment	**33,457**	**27,652**
Provisions	(3)	(4)
Total	**33,454**	**27,648**

The provisions are related to cheques in course of collection.

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20. OBLIGATORY RESERVE WITH THE CENTRAL BANK

	2011	2010 Restated
Obligatory reserve at Central Bank	46,706	43,764
Total	46,706	43,764

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

	2011	2010 Restated
Placements with banks		
Money market placements	56,511	147,292
Restricted deposits	20	20
	56,531	**147,312**
Loans and advances to banks		
Intesa Sanpaolo banka d.d. Sarajevo	1,376	2,000
Privredna banka d.d. Sarajevo	1,919	1,921
Moja banka d.d. Sarajevo (former Fima banka d.d. Sarajevo)	652	1,304
Total before impairment	**60,478**	**152,537**
Provisions	(2)	(3)
Total	**60,476**	**152,534**

The average interest rate for placements in EUR on 31 December 2011 was 0.89% (2010: 0.42%).

Changes in provisions are presented as follows:

	2011	2010 Restated
Balance as at 1 January	3	-
Impairment losses (Note 14)	(1)	3
Balance as at 31 December	**2**	**3**

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22. LOANS AND ADVANCES TO CUSTOMERS

	2011	2010 Restated
Short-term loans		
Corporate loans	142,869	104,834
Retail loans	19,780	15,945
	162,649	**120,779**
Long-term loans		
Corporate loans	248,737	209,340
Retail loans	262,239	218,715
	510,976	**428,055**
Total loans before provisions for impairment	**673,625**	**548,834**
Provisions for loan impairment	(55,329)	(44,180)
Total	**618,296**	**504,654**

Changes in provision can be presented as follows:

	2011	2010 Restated
Balance as at 1 January	44,180	30,938
Impairment losses (Note 14)	11,248	13,244
Write-offs	(99)	(2)
Balance as at 31 December	**55,329**	**44,180**

Loans and advances to customers are presented including accrued interest in the amount of BAM 4,880 thousand (2010: BAM 2,373 thousand), and net of deferred fees in the amount of BAM 3,722 thousand (2010: BAM 3,198 thousand).

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

	2011	2010 Restated
Corporate	7.49%	7.81%
Retail	8.20%	8.75%

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23. FINANCIAL ASSETS AVAILABLE FOR SALE

	2011.	2010 Restated
Equity securities		
BAMCARD d.d. Sarajevo	115	115
SWIFT	24	24
S Leasing d.o.o. Sarajevo	120	120
S Premium d.o.o. Sarajevo	49	40
S Real d.o.o. Sarajevo	49	-
Subtotal	357	299
Less: Provision for impairment	(7)	(6)
Total equity securities	**350**	**293**
Debt securities		
Government of Republic of Croatia – bonds (Baa3/BBB)	10,217	10,592
Government of the Federation of Bosnia and Herzegovina – T bills	6,453	355
Government of the Federation of Bosnia and Herzegovina and Republic of Sprska- bonds (B+)	453	355
Subtotal	17,123	10,947
Less: Provision for impairment	(212)	(219)
Total debt securities	**16,911**	**10,728**
Total	**17,261**	**11,021**

Investments are as follows:

Company	Activity	Ownership	Country
BAMCARD d.d. Sarajevo	Debit and credit cards	4.73%	Bosnia and Herzegovina
SWIFT	Interbank telecommunication	-	Belgium
S Leasing d.o.o. Sarajevo	Leasing	10%	Bosnia and Herzegovina
S Premium d.o.o. Sarajevo	Insurance broker	49%	Bosnia and Herzegovina
S Real d.o.o. Sarajevo	Real estate broker	49%	Bosnia and Herzegovina

Changes in provisions are presented as follows:

	2011	2010 Restated
Balance as at 1 January	225	5
Impairment (gain) / losses (Note 14)	(6)	220
Balance as at 31 December	**219**	**225**

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24. OTHER ASSETS

	2011	2010 Restated
Financial assets		
VAT receivables	-	922
Fees and commissions receivable	583	1,274
Receivables from domestic payment transactions	375	153
Receivables from Western Union	175	86
Prepaid income tax	-	-
Foreclosed assets	105	50
Receivables from off balance	815	-
Other financial assets	414	181
	2,467	**2,666**
Non financial assets		
Prepaid expenses	206	75
Consumables	80	77
	286	**152**
Total other assets before provision	**2,753**	**2,818**
Less: Provision for impairment	(1,558)	(1,214)
Total	**1,195**	**1,604**

Changes in provisions are presented as follows:

	2011	2010 Restated
Balance as at 1 January	1,214	1,275
Transfer to cash and cash equivalents	2	(4)
Impairment losses (Note 14)	342	539
Write-offs	-	(596)
Balance as at 31 December	**1,558**	**1,214**

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25. PROPERTY AND EQUIPMENT

	Land and buildings	Computers	Vehicles	Furniture and office equipment	Construction in progress	Total
COST						
At 1 January 2010	**7,088**	**2,847**	**575**	**5,845**	**655**	**17,010**
Additions	-	-	-	-	19,455	19,455
Transfer (from) / to	17,463	321	157	2,057	(19,998)	-
Disposals	(130)	(218)	(20)	(338)	-	(706)
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**
ACCUMULATED DEPRECIATION						
At 1 January 2010	**663**	**2,203**	**393**	**2,855**	**-**	**6,114**
Charge for the year	242	247	60	649	-	1,198
Disposals	(15)	(213)	(16)	(301)	-	(545)
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**
CARRYING AMOUNT 31 December 2010	**23,531**	**713**	**275**	**4,361**	**112**	**28,992**
CARRYING AMOUNT 31 December 2011	**23,397**	**702**	**265**	**4,268**	**288**	**28,920**

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26. INVESTMENT PROPERTY

The movements in investment property assets during the year ended 31 December 2011 are summarized as follows:

	Investment property	Construction in progress	Total
COST			
At 31 December 2009	**-**	**-**	**-**
Additions	-	6,128	6,128
Reclassification from IA (Note 27)	-	203	203
Transfer from to	6,331	(6,331)	-
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**
ACCUMULATED DEPRECIATION			
At 31 December 2009	**-**	**-**	**-**
Charge for year	15	-	15
Reclassification from IA (Note 27)	27	-	27
At 31 December 2010	**42**	**-**	**42**
Charge for the year	88	-	88
At 31 December 2011	**130**	**-**	**130**
CARRYING AMOUNT			
31 December 2010	**6,289**	**-**	**6,289**
31 December 2011	**7,123**	**-**	**7,123**

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 7,123 (2010: BAM 6,289) was put in use in 2010.

In the opinion of management, the fair value as of 31 December 2011 does not differ significantly from the carrying value of the building.

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27. INTANGIBLE ASSETS

	Intangible assets	Leasehold improvements	Investments i n progress	Total
COST				
At 1 January 2010	**3,162**	**1,399**	**-**	**4,561**
Additions			975	975
Transfer (from) / to	662	119	(781)	-
Reclassification to investment property (Note 26)	-	(203)	-	(203)
Disposals	(47)	(194)	-	(241)
At 31 December 2010	**3,777**	**1,121**	**194**	**5,092**
Additions	-	-	859	859
Transfer (from) / to	840	156	(996)	-
Disposals	-	(56)	-	(56)
At 31 December 2011	**4,617**	**1,221**	**57**	**5,895**
ACCUMULATED AMORTISATION				
At 1 January 2010	**1,399**	**540**	**-**	**1,939**
Charge for the year	518	166	-	684
Reclassification to investment property (Note 26)	-	(27)	-	(27)
Disposals	(45)	(74)	-	(119)
At 31 December 2010	**1,872**	**605**	**-**	**2,477**
Charge for the year	624	180	-	804
Reclassification to investment property (Note 26)	-	-	-	-
Disposals	-	(56)	-	(56)
At 31 December 2011	**2,496**	**729**	**-**	**3,225**
CARRYING AMOUNT				
31 December 2010	**1,905**	**516**	**194**	**2,615**
31 December 2011	**2,121**	**492**	**57**	**2,670**

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28. CURRENT ACCOUNTS AND DEPOSITS FROM BANKS

	2011	2010 Restated
Demand deposits		
In domestic currency	139	217
In foreign currencies	93	69
	232	**286**
Term deposits		
In domestic currency	90	75
In foreign currencies	281,721	264,972
	281,811	**265,047**
Total	**282,043**	**265,333**

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 9 million with maturity as at 27 June 2013, 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.

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29. CURRENT ACCOUNTS AND DEPOSITS FROM CUSTOMERS

	2011	2010 Restated
Demand deposits		
Retail:		
In domestic currency	54,933	47,384
In foreign currencies	23,844	20,096
	78,777	**67,480**
Corporate:		
In domestic currency	62,898	41,356
In foreign currencies	6,159	5,444
	69,057	**46,800**
Other government and non-government organizations		
In domestic currency	14,134	13,453
In foreign currencies	1,194	3,999
	15,328	**17,452**
	163,162	**131,732**
Term deposits		
Retail:		
In domestic currency	35,806	27,402
In foreign currencies	111,275	89,697
	147,081	**117,099**
Corporate:		
In domestic currency	52,902	19,433
In foreign currencies	16,046	17,284
	68,948	**36,717**
Other government and non-government organizations		
In domestic currency	29,515	39,273
In foreign currencies	9,450	3,424
	38,965	**42,697**
	254,994	**196,513**
Total	**418,156**	**328,245**

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30. BORROWINGS

	Short term		Long-term		Total	
	2011	2010 Restated	2011	2010 Restated	2011	2010 Restated
Steiermarkische Bank und Sparkassen AG (i)	6,514	65,065	86	90	6,600	65,155
Investment Bank of Federation of Bosnia and Herzegovina (ii)	-	-	-	5	-	5
Government of Zenica-Doboj Canton (iii)	-	-	113	301	113	301
Bankhaus Krentschker & Co. Graz AT (iv)	-	29,337	-	-	-	29,337
Total	**6,514**	**94,402**	**199**	**396**	**6,713**	**94,798**

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

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

(iii) 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.

(iv) The borrowing comprises one short term borrowing repaid in full on 5 January 2011, interest rate 1.184% p.a.

31. OTHER PROVISIONS

	2011	2010 Restated
Provision for off-balance sheet items (Note 15)	3,367	3,209
Provision for legal proceedings (Note 15)	852	1,045
Provisions for employee benefits	1,153	1,049
Total	**5,372**	**5,303**

Changes in provisions are presented as follows:

	Legal proceedings	Off-balance sheet items	Provisions for employee benefits	Total
Balance as of 1 January 2010	**958**	**4,423**	**559**	**5,940**
Net charge to profit or loss	133	(1,214)	490	(591)
Provisions settled during the year	(46)	-	-	(46)
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**

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

32. OTHER LIABILITIES

	2011	2010 Restated
Other financial liabilities		
Liabilities to employees	1,664	1,791
Liabilities to suppliers	869	900
Liabilities for undistributed payments	168	248
Tax payables	28	152
Liabilities for dividends	-	148
Income tax liability	18	8
Liabilities from on-lending activities (see Note 35)	2	2
Liabilities from interbank transactions	2,924	-
Other	576	735
Total	**6,249**	**3,984**

33. SHARE CAPITAL

The Bank's ownership structure was as follows:

	31 December 2011			31 December 2010		
	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	83,896	838,960	97.0	73,823	738,230	96.5
Other	2,577	25,773	3.0	2,650	26,503	3.5
Total	**86,473**	**864,733**	**100.0**	**76,473**	**764,733**	**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.

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34. RELATED-PARTY TRANSACTIONS

Transactions with related parties are summarized as follows:

Transactions with parent Bank

	31 December 2011		31 December 2010	
	Receivables	Payables	Receivables	Payables
Steiermarkische Bank und Sparkassen AG, Graz, Austria	20	288,321	91	330,127
Total	**20**	**288,321**	**91**	**330,127**

	Year ended 31 December 2011		Year ended 31 December 2010	
	Income	Expenses	Income	Expenses
Steiermarkische Bank und Sparkassen AG, Graz, Austria	25	6,116	14	3,523
Steiermarkische Bank und Sparkassen AG, Graz, Austria – fee expenses	-	115	-	180
Total	**25**	**6,231**	**14**	**3,703**

Transactions with other related parties

	31 December 2011		31 December 2010	
	Receivables	Payables	Receivables	Payables
Erste Bank der Oesterreichischen Sparkassen AG Wien, Austria	19,650	-	16,860	-
Erste and Steiermarkische bank dd Zagreb, Croatia	12	-	30	-
Sparkasse Bank Macedonia	2	-	1	-
Total	**19,664**	**-**	**16,891**	**-**

	Year ended 31 December 2011		Year ended 31 December 2010	
	Income	Expenses	Income	Expenses
Sparkasse Bank, Macedonia	526	-	197	-
Erste Bank der Oesterreichischen Sparkassen AG Wien, Austria	42	-	21	-
S Leasing d.o.o. Sarajevo	-	-	-	212
Total	**568**	**-**	**218**	**212**

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

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34. RELATED-PARTY TRANSACTIONS (CONTINUED)

The total remuneration of the Management Board and other members of key management during the year ended 31 December 2011 were as follows:

	2011	2010 Restated
Salaries and other income	1,180	869
Taxes and contributions on salaries and other income	859	646
Total	**2,039**	**1,515**

35. MANAGED FUNDS

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

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

	2011	2010 Restated
Loans		
Companies	17,542	18,395
Individuals	3,824	3,970
Total	**21,366**	**22,365**
LIABILITIES		
Employment agency of the Federation of Bosnia and Herzegovina	18,414	19,027
Citizens and companies	140	140
Ministry of War veterans of Zenica-Doboj Canton	1,110	1,119
International Guarantee Agency	326	644
Government of Zenica-Doboj Canton	248	271
Government of Bosnia-Drina Canton	813	828
Employment agency of Zenica-Doboj Canton	188	205
Employment agency of Bosnia-Drina Canton	22	23
Lutheran World Federation	73	73
Housing fund of Una-Sana Canton	29	29
War veterans Bihać	5	8
Total	**23,368**	**22,367**
Current liabilities from managed funds activities (see Note 32)	**2**	**2**

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

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36. COMMITMENTS AND CONTINGENCIES

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

	2011	2010 Restated
Undrawn lending commitments	62,613	38,807
Payment guarantees	11,131	7,804
Performance guarantees	18,016	18,490
Letters of credit	1,098	1,099
Total	**92,858**	**66,200**

37. OPERATING LEASES

	2011	2010 Restated
Not later than one year	1,509	1,457
Between 1 and not later than year 5	3,207	3,320
Later than 5 years	585	838
Total	**5,301**	**5,615**

Branches

PLACE	ADDRESS	TELEPHONE	FAX
BRANCH SARAJEVO	**Zmaja od Bosne br. 7**	**033/722 400**	**033/722 419**
Ferhadija	Ferhadija 23	033/580 910	033/580 919
Centar	Maršala Tita br. 15	033/722 431	033/722 430
Novi Grad	Bulev. Meše Selimovića br. 97	033/769 690	033/769 710
Vogošća	Jošanička bb	033/424 070	033/424 715
Dobrinja	Dobrinjske bolnice br. 11	033/788 460	033/788 455
Novo Sarajevo	Zmaja od Bosne br. 60	033/718 335	033/718 375
Ilidža	Samira Ćatovića Kobre br. 2	033/764 925	033/764 945
BRANCH GORAŽDE	**Alije Hodžića br. 3**	**038/241 090**	**038/241 099**
BRANCH BIHAĆ	**Hasana Kjafije Pruščaka bb**	**037/229 056**	**037/224 191**
Bihać	V Korpusa br. 1	037/229 055	037/229 079
Bos. Petrovac	Trg šehida bb	037/883 166	037/883 163
Cazin	Cazinskih brigada br. 24	037/510 045	037/510 044
V. Kladuša	Trg A. M. Brene bb	037/775 035	037/775 083
Sanski Most	Mahala br. 2	037/688 588	037/688 606
Ključ	Branilaca bb	037/660 148	037/660 013
BRANCH TUZLA	**Aleja Alije Izetbegovića br. 2**	**035/300 750**	**035/300 757**
Sjenjak	Ismeta Mujezinovića bb	035/300 767	035/300 771
Gračanica	Fridriha Foglera br. 8	035/700 171	035/700 075
Živinice	Tuzlanskog odreda blok 1	035/740 900	035/740 950
Gradačac	Husein kap. Gradaščevića bb	035/821 505	035/822 040
Lukavac	Sarajevska br. 5	035/550 140	035/550 435
Čelić	Alije Izetbegovića bb-Tržni centar	035/668 091	035/668 220
Brčko	Bulevar mira br. 30	049/235 453	049/235 455
BRANCH ZENICA	**Maršala Tita br. 9**	**032/449 220**	**032/449 229**
Zenica	Aska Borića br. 23	032/449 232	032/449 230
Žepče	Stjepana Tomaševića bb	032/888 240	032/880 156
Kakanj	Alije Izetbegovića bb	032/552 950	032/552 960
Tešanj	Trg Alije Izetbegovića bb	032/665 130	032/665 135
Maglaj	Viteška bb	032/609 320	032/609 800
Jelah	Titova Ulica bb Jelah	032/667 710	032/667 870
Travnik	Bosanska br. 121	030/519 450	030/519 498
Bugojno	Trg Zlatnih ljiljana br. 3	030/270 410	030/260 160
BRANCH MOSTAR	**Husnije Repca bb**	**036/501 800**	**036/501 810**
Konjic	Željeznička bb	036/734 120	036/735 980
Jablanica	Putnikova bb	036/750 570	036/752 233
Mostar	Kralja Tvrtka br. 12	036/333 450	036/333 448
Čapljina	Trg Kralja Tomislava br. 26	036/810 612	036/810 610
Široki Brijeg	Trg Ante Starčevića br. 6	039/700 031	039/700 414
BRANCH VISOKO	**Alije Izetbegovića br. 16**	**032/730 350**	**032/730 355**
Fojnica	Bosanska bb	030/544 131	030/544 135
BRANCH BANJA LUKA	**Aleja Svetog Save br. 7**	**051/340 015**	**051/340 030**
Doboj	Nemanjina 64	053/205 530	053/206 940
Prijedor	Svetosavska bb	052/242 150	052/243 290
BRANCH BIJELJINA	**Dositeja Obradovića bb**	**055 220 872**	**055 220 889**