Bosna Bank International

Annual Report 2011

BRANCHES

Bosna Bank International

SARAJEVO
Centrala - Trg djece Sarajeva bb, tel. 033 275-225
BBI Centar - Trg djece Sarajeva 1, tel. 033 275-177
Ferhadija - Trg fra Grge Martića 4, Sarajevo, tel. 033 253-920
Novo Sarajevo - Džemala Bijedića 2, Sarajevo, tel. 033 712-586
Ilidža - Rustempašina 31, Sarajevo, tel. 033 763-036

TUZLA
Pozorišna 6, tel. 035 364-066

GRAČANICA
22. divizije br. 26b, tel. 035 700-256

GRADAČAC
H. Gradaščevića bb, tel. 035 821-096

BRČKO
Bulevar mira 2, tel. 049 235-940

CAZIN
Dr. Irfana Ljubljankića bb, tel. 037 510-103

MOSTAR
Braće Fejić 32, tel. 036 555-710

BIHAĆ
Husrefa Redžića 6, tel. 037 329-617

VISOKO
Alije Izetbegovića 1, tel. 032 730-241

ZENICA
Trg Alije Izetbegovića 67, tel. 032 209-599

SREBRENIK
1. marta bb, tel. 035 647-780

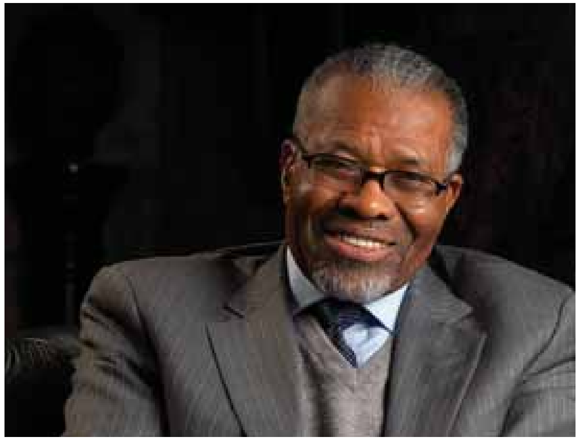
TEŠANJ
Maršala Tita bb, tel. 032 656-770

BUGOJNO
Zlatnih ljiljana bb, tel. 030 260-022


BBI

CONTENTS

STATEMENT BY THE CHAIRMAN OF THE GENERAL ASSEMBLY OF THE BANK



Chairman of the General Assembly of BBI

It gives me great personal pleasure to present the financial statements for 2011 to all Shareholders of Bosna Bank International d.d. in Bosnia Herzegovina and a broad.

Since the beginning of its operations BosnaBank International has started with and up held its vision of introduction and expansion of Islamic banking in South East Europe along with providing support to the growing economy of Bosnia and Herzegovina. The Bank has made substantial progress over the years and has been able to maintain its strength inspite of the financial crises as a result of its adherence to the sound principles of Islamic financing. With the support from its Shareholders and the dedication of the Bank's management and staff, the Bank has been able to maintain successful growth over the years. It will continue to exertut most efforts in the future to realize its over all vision of fostering economic development and social progress in Bosnia and Herzegovina.

Sarajevo Business Forum Project established by BBI incooperation with its Shareholders has successfully been held for the second time during 2011. During the second forum, 153 business projects totaling 14.7 billion Euro were presented to numerous international investors and contracts of theproject realization from the first Sarajevo Business Forum were signed. SBF has become an important bridge between our partners from the South-Eastern European and investors from the Gulf and the Far East and a leading force for economic development and entrepreneurship.

Bosna Bank International is aware of the importance of investing in education and science; thus in 2011 like in every previous year, the Bank extended its commitment to serving the communities and facilitating access to education by providing finance through its scholarship fund that has grown manifold.

As reflected in the IDB motto "Together We Build A Better Future", IDB and the other Shareholders of BBI together with the Bank's management and the staff are committed to realization of its mission of assisting reconstruction and socio-economic development of Bosnia and Herzegovina. Bosna Bank International has been operating in Bosnia and Herzegovina for eleven years now and has been enhancing its scope of Islamic banking operations proving that Islamic banking princi pies are ethical and universal and serving the common good of humanity.

The Shareholders of BBI are pleased to express their appreciation to the Management and the staff of BBI for the accomplished results and particularly to the authorities in Bosnia and Herzegovina and the public for their generous support to the Bank.

The Shareholders of BBI are committed to continuing our support to the Bank with the aim of contributing to the socio-economic development of Bosnia and Herzegovina. We hope that with the help of Allah the Almighty and support of all Shareholders the Bank will further increase its potential and remain the hub for Islamic banking industry in the region.

Dr. Ahmad Mohamed Ali

STATEMENT BY THE CHAIRMAN OF THE SUPERVISORY BOARD OF THE BANK

Chairman of the Supervisory Board of BBI

On behalf of the Supervisory Board of Bosna Bank International I am pleased to introduce the 2011 Annual Report.

2011 was an extremely challenging and demanding year as we navigated our way through a banking landscape that has changed significantly due to global financial and economic crisis. We have withstood challenges in the past several years and have emerged stronger and more resilient. Bosna Bank International, which is the only Bank in the region that is Sharia compliant, has become recognized and trusted brand.

Part of our success in 2011 is a result of our focus on providing superior customer service and experience, and offering of a larger variety of products and high-quality services to private, business, public sector, and corporate banking clients. Customer service excellence, best practice risk management and qualified staff remain our tendency.

In 2011, BBI continued to achieve positive results that were demonstrated by growth in its activities across the board to secure its future in the market in which it operates. In comparison with the previous year, BBI increased its total assets by 10% compared to the market average of 4%. Profit before tax amounted to 2.3 million KM compared to 0.4 million KM in the previous year, and customer deposits by 9% compared to market average 4%. The number of customers has been increased by 21% since the end of last year. The Bank's capital adequacy has been held at 19.7%, which is above the regulatory requirement of 12%.

The Bank continues its efforts of investing into local talents by employing 28 additional people in the year 2011. It has further achieved its objective by opening 3 new branches in same year, and is planning to open another 7 new branches in the coming years.

Year 2011 was the year of introduction of a new IT operating system. It was a great challenge for the whole of BBI family. A lot of efforts and dedication have been devoted to the completion of this project, which is considered as high risk in nature and challenging for all financial institutions. I would like to reiterate our highest appreciation to all those who have played a role in completing this new technology platform, enabling BBI to meet future challenges.

Corporate social responsibility is a major component of our values and thus in 2011 we continue our commitment to serving the communities and facilitating access to education in the form of scholarships for 647 students and post-graduates from Bosnia and Herzegovina.

We are proud of the fact that Bosna Bank International continued extending support for return of refugees and displaced persons to their homes and for the development of small businesses through favorable micro financings.

This has been an extremely challenging and rewarding year and we would like to extend our gratitude to all our customers, the BBI's shareholders and the banking authorities in Bosnia and Herzegovina for their continued support.

Mr. Abdul Aziz Ahmed Al Muhairi

STATEMENT BY THE DIRECTOR GENERAL/CEO OF THE BANK

On behalf of the Management of Bosna Bank International, I would like to take this opportunity to convey my deep gratitude, first of all to our valued clients, the business partners and associates who remained loyal and committed partners to BBI in 2011. Despite the overall difficult times in the banking sector in B&H, Bosna Bank International has reached a positive financial result again.

I am proud to state that thanks to hard work, dedication and loyalty of all the management and the staff of BBI, we have succeeded in these difficult times to attain even better results than the previous year. In 2011 our Bank increased its market share across the segments of business activities.

Respected clients, business partners and associates, I am pleased to present to you the results of BBI in the previous year in comparison to the year before (2011).

- Generated net profit at the end of 2011 amounted 2.1 million KM
- Increase of total assets by 10%
- Increase of customer finance by 17%, thereof 26% retail finance and 13% corporate finance
- Increase of customer deposits by 9%, thereof 19% retail deposits, 5% corporate deposits
- Fee income growth of 16%
- Increase of number of customers by 21%
- Capital adequacy of the Bank was held significantly above the regulatory requirement of 12% and amounted to 19.7%.

Bosna Bank International is representing prestigious and strong banks: Islamic Development Bank, Dubai Islamic Bank and Abu Dhabi Islamic Bank, which makes us even more motivated to attain the mission of our Bank to assist the reconstruction and socio-economic development of Bosnia and Herzegovina.

Bosna Bank International is a unique bank in Bosnia and Herzegovina operating on Islamic Banking principles. We have succeeded in tailoring new and increasing the range of products and services that are compatible with both the Islamic banking practices and local regulations.

In 2011, BBI focused its attention on a whole range of educational activities such as promotion of Islamic banking and educating public about Islamic finance, as well as providing its contribution in areas of corporate social responsibility. BBI has always considered higher education to be of paramount significance. In line with this policy, BBI awarded 500 Bosnian scholars from Sheikh Saleh Kamel Fund whose annual fund is US$ 600,000, including 30 scholarships to students of final year of studies and 17 scholarships to postgraduates in the amount of Euro 50,000 for the fourth year now from Abdu Dhabi Finance House and 100 scholarships in the total amount of 100,000 KM from BBI Charity Fund for 100 children students of the returnees in Republika Srpska.

BBI Academy conducted 28 seminars on 15 different topics and 300 participants attended the seminars, all of whom were delivered by BBI employees.

I am proud that Bosna Bank International, in cooperation with the Islamic Development Bank (IDB), organized the 2nd Sarajevo Business Forum in Sarajevo. During the second Forum, 153 business projects whose value totaled 14.7 billion Euros were presented to numerous international investors. SBF has become the most important gathering of foreign investors and businessmen in the region.

We are confident this positive trend will continue in 2012, God willing. Bosna Bank International will continue striving towards perfecting its products and services for the benefit of its clients.

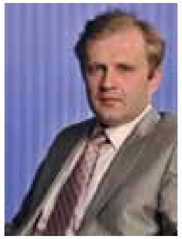
I would like to thank the staff of BBI, our clients and all our business partners for their confidence over the years.

Mr. Amer Bukvic, CEO
of Bosna Bank International

BBI MANAGEMENT

MISSION:

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



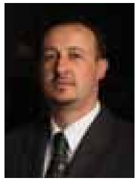
Amer Bukvić
Director General/CEO

Vildana Škaljić
Executive Director

Emir Čehajić
Executive Director

Mirza Spahić
Director of Legal Division

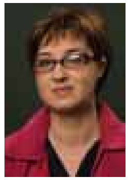
Ganiba Adilović
Acting Director of Strategic Planning and Financial Control Division



Muhamed Prlja
Director of Retail Banking Division

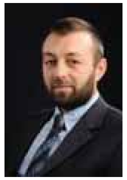
Semir Ibrahimović
Director of IT Division

Salih Purišević
Secretary General of the Bank



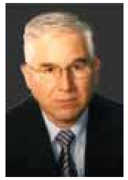
Emina Šišić
Director of Operations Division

Mirsada Čengić
Director of Treasury and FI Division



Samir Suljević
Director of HR and Administration Division

Nusreta Pidro
Director of Credit and Market Risk Management Division



Safet Proho
Chief Internal Auditor

Azra Čolić
Acting Director of Corporate Banking Division

REPORT OF THE MANAGEMENT BOARD

The Management has pleasure in submitting 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 income statement on page 5.

Supervisory Board, Audit Board, Shari'ah Board and Management

During the course of 2011 and up to the date of this report, the Supervisory Board comprised:

Supervisory Board:

Mr. Abdul Aziz Ahmed Al-Muhairi	Chairman
Mr. Khaled M.N. Al Aboodi	Vice Chairman
Mr. Hasan Demirhan	Member
Mr. Ahmed Junaid	Member
Mr. Andrew Douglas Moir	Member

Audit Board:

Mr. Harun Kapetanović	Chairman
Mr. Mostafa Mahmoud Mostafa	Vice Chairman
Mr. Abdul Hakim Kanan	Member
Mr. Mehmet Kamil Tumer	Member
Mr. Edin Brkić	Member

Shari'ah Board:

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

Management:

As of 31 December 2011, the Management comprised of the Director General and 2 Executive directors. The persons who served as Executive Directors during the year and up to the date of this report are as follows:

Mr. Amer Bukvić	Director General/CEO
Mrs. Vildana Škaljić	Executive Director
Mr. Emir Ćehajić	Executive Director

On behalf of the Management

Amer Bukvić
CEO

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

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

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

Signed on behalf of the Management Board:

Amer Bukvić
Director General/CEO

Vildana Škaljić
Executive Director

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

25 March 2011

INDEPENDENT AUDITOR'S REPORT

pwc

To the shareholders and Board of directors of Bosna Bank International d.d., Sarajevo

We have audited the accompanying financial statements of Bosna Bank International d.d., Sarajevo(„the Bank") which comprise the statement of financial position as of 31 December 2011 and the statement of comprehensive income, changes in equity and cash flow for the year then ended and as ummary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation of the financial statements that presents a true and fair view in accordance with the Law on Accounting and Auditing of Federation of Bosnia and Herzegovina, Law on Banks and Federal Banking Agency's Decisions (Hereinafter: FBA), 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 insurance 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 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 Company's preparation of financial statements that give true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinionon the effectiveness of the entity's internal controls. 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 forour audit opinion.

Opinion

In our opinion, the accompanying financial statements presents fairly, in all material respects, the financial position of Bosna Bank International d.d., Sarajevo as at 31 December 2011, and of its financial performance and cash flows for the year then ended in accordance with the Law on Accounting and Auditing of Federation of Bosnia and Herzegovina, the Law on Banks and FederalBanking Agency's Decisions

PricewaterhouseCoopersd.o.o.
Sarajevo

AlidaSelimović,
Certified auditor

Sarajevo, 25 April 2012

PRICEWATERHOUSECOOPERS D.O.O. SARAJEVO

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

STATEMENT OF COMPREHENSIVE INCOME

(All amounts are given in BAM '000, unless otherwise stated)

	Notes	2011	2010
InIncome from operations with clients (Murabaha, Wakala) and from financing retail and corporate sector (Musharaka and Ijara)	5	17,169	15,358
Expenses in respect of amounts due to customers and to banks (Wakala)	5	(6,847)	(6,079)
Net income from financing and investments		**10,322**	**9,279**
Net impairment losses and provisions	11	(367)	(5,014)
Net interest income after provision for impairments		**9,955**	**4,265**
Fee and commission income	6	4,989	5,324
Fee and commission expense	6	(911)	(736)
Net financial gain	7	219	148
Other operating income	8	161	4,271
Personnel expenses	9	(7,319)	(6,343)
Depeciation expenses	21,22	(954)	(842)
Other operating expenses	10	(4,172)	(6,050)
Collected written-off receivables	12	347	387
Profit before income taxes		**2,315**	**424**
Income tax	13	(236)	(7)
Net profit for the year		**2,079**	**417**
Basic/diluted earnings per share (in BAM)	**29**	**3.5**	**0.7**

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

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

(All amounts are given in BAM '000, unless otherwise stated)

	Notes	2011	2010 Restated (Note 2.2.)
ASSETS			
Cash and balances with banks	14	62,406	38,546
Cash and the balances with the Central Bank of Bosnia and Herzegovina	15	20,444	23,458
Placements to banks	16	39,376	62,085
Financial assets available for sale	17	57	57
Financial assets at fair value through profit or loss	18	394	487
Financing of customers	19	201,508	174,622
Income tax prepayments		41	153
Other assets	20	2,535	649
Non-current asset held for sale	20a	482	-
Defferred tax assets		-	25
Property and equipment	21	9,593	8,550
Intangible assets	22	285	115
TOTAL ASSETS		**337,121**	**308,747**
LIABILITIES			
Due to banks	24	35,288	29,544
Due to customers	23	231,733	223,700
Borrowings	25	13,272	804
Other liabilities	26	3,302	2,620
Provisions for liabilities and charges	27	1,988	2,620
TOTAL LIABILITIES		**285,583**	**259,288**
SHAREHOLDERS' EQUITY			
Share capital	28	50,059	50,059
Statutory reserves		405	405
Accumulated losses / gains		1,074	(1,005)
TOTAL EQUITY		**51,538**	**49,459**
TOTAL EQUITY AND LIABILITIES		**337,121**	**308,747**

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

STATEMENT OF CHANGES IN EQUITY

(All amounts are given in BAM '000, unless otherwise stated)

	Share capital	Statutory reserves	Retained earnings	Accumulated losses	Total
Balance as at 31 December 2009	**50,059**	**23**		**(1,422)**	**48,660**
Profit for the year	-	-	-	417	417
Balance as at 31 December 2010	**50,059**	**23**	**-**	**(1,005)**	**49,077**
Effects of adoption of new or revised standards (Note 2.2.)	-	382	-	-	382
Balance as at 31 December 2010 (restated)	**50,059**	**405**	**-**	**(1,005)**	**49,459**
Profit for the year	-	-	1,074	1,005	2,079
Balance as at 31 December 2011	**50,059**	**405**	**1,074**	**-**	**51,538**

CASH FLOW STATEMENT

(All amounts are given in BAM '000, unless otherwise stated)

	Note	2011	2010
Cash flow from operating activities			
Profit for the year		2,315	424
Adjusted for:			
Depreciation and amortization	21,22	955	842
Net impairment losses and provisions		2,048	5,014
Provisions for employee benefits		209	30
Fair value adjustment		73	88
Dividend income		(14)	(29)

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

CASH FLOW STATEMENT

(All amounts are given in BAM '000, unless otherwise stated)

Write off of intangible assets		-	1,635
Cash flow from operating activities before changes in operating assets and liabilities		**5,586**	**8,004**
Decrease /(Increase) in obligatory reserve with the Central Bank		3,014	(7,485)
Decrease /(Increase) in placements with banks		23,736	(47,927)
Increase in financing of customers		(29,070)	(33,361)
Increase in other assets		(1,937)	(47)
Increase in income tax prepayments		137	(2)
Increase/(decrease) in amounts due to banks		5,744	17
Increase in amounts due to customers		8,033	63,003
Decrease / (Increase) in other liabilities		673	(2,232)
(Increase)/Decrease in provisions for liabilities and charges		(1,673)	(15)
Non – current assets held for sale		(482)	-
Income tax		(236)	(7)
NET CASH FROM OPERATING ACTIVITIES		**7,939**	**(28,056)**
Investing activities			
Purchase of assets available for sale		-	(1)
Purchase of financial assets at fair value through profit and loss		20	(108)
Purchase of property and equipment		(1,919)	(890)
Purchase of intangible assets		(249)	(38)
Dividends received		14	29
NET CASH FROM INVESTING ACTIVITIES		**(2,134)**	**(1,008)**
Financing activities			
Increase in borrowings		12,468	201
Net cash from financing activities		**12,468**	**201**
Net (decrease)/increase in cash and cash equivalents		**23,859**	**(20,853)**
Cash and cash equivalents at the beginning of the year		**38,547**	**59,399**
Cash and cash equivalents at the end of the year	14	**62,406**	**38,547**

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

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(All amounts are given in BAM '000, unless otherwise stated)

1. General information

Bosna Bank International d.d. was registerd on 19 October 2000 as the first bank in Europe which operates on the principles of Islamic banking. The share capital of BBI bank, which amounted to 47.52 million BAM, was at the time the largest paid-up capital compared to other banks in the country. With that amount of capital Bosna Bank International is ready to embark on the reconstruction and further development of Bosnia & Herzegovna.

On the 13 March 2002 the Bank obtained a license for domestic payment transactions from the Banking Agency of the Federation of Bosnia and Herzegovina, and in November the same year the Bank obtained a license for insurance of deposits. The Bank made it´s first transaction in the beginning of 2001.

1. The main activites of the Bank include providing the following banking services:
2. Financing legal entities and physical persons
3. Receiving and placing of deposits
4. Activities in inter-bank market
5. Buying and selling of foreign currencies, and other banking services.

The shareholders of the Bank are:

	31 December 2011		31 December 2010 Restated	
	Amount in BAM	**%**	**Amount in BAM**	**%**
Islamic Development Bank, Saudi Arabia	22,755	45.46	22,755	45.46
Abu Dhabi Islamic Bank, United Arab Emirates	13,652	27.27	13,652	27.27
Dubai Islamic Bank, United Arab Emirates	13,652	27.27	13,652	27.27
Total	**50,059**	**100.00**	**50,059**	**100,00**

The address of its registered office is Trg Djece Sarajeva bb, 71000 Sarajevo, Bosnia & Herzegovina.

Employees

As of 31 December 2011 Bosna Bank International employed 235 persons (2010: 207 employees).

(All amounts are given in BAM '000, unless otherwise stated)

1. General information (continued)

Supervisory board	
President	Abdul Aziz Ahmed Al Muhairi
Vice President	Khaled M. N. Al Aboodi
Member	Hasan Demirhan
Member	Ahmed Junaid
Member	Andrew Douglas Moir
Audit Committee	
President	Harun Kapetanovic
Vice President	Mostafa Mahmoud Mostafa
Member	Abdul Hakim Kanan
Member	Mehmet Kamil Tumer
Member	Edin Brkic
Sharia Board	
President	Prof. Dr. Mustafa Ceric
Vice President	Dr. Abdulsattar Abu Ghuddah
Member	Dr. Nizam Al-Yaqoobi
Member	Dr. Šukrija Ramić
Member	Saleh Michael Gassner
Management	
Director General/CEO	Amer Bukvić
Executive director	Vildana Škaljić
Executive director	Emir Ćehajić
Secretary of the Bank	Salih Purišević

1.1 Financial crisis impact

Recent volatility in global and Bosnia and Herzegovina financial markets

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.

During 2009, 2010 and 2011 the negative impact of the global economic crisis on BiH had an impact on the banking sector in BiH, resulting in worsening of portfolio quality (increased credit risk and impairment losses) and a decline in profitability. At the same time the stability of the banking sector was maintained by improving capital basis and adequacy of capital, keeping sufficient liquidity and cash reserves in assets, but also by stopping negative trends in individuals deposits, as a result of measures and activities taken by banking agencies in Bosnia and Herzegovina, Central Bank of Bosnia and Herzegovina

(All amounts are given in BAM '000, unless otherwise stated)

1. General information (continued)

and banks themselves in order to maintain trust in the banking system.

Apart from the global financial crisis, which is still present in 2011, political instability, non-functioning state government, and lack of financial reforms and necessary environment for the normal functioning of companies, contribute to the country's complex situation. The European Commission has done an analysis of the economic situation in the west Balkans, which shows that external deficit of BiH in third quartal of 2011 has increased by 12,2%, when compared to the same period in 2010. The main cause of such increase is trade deficit. The second half of 2011 also shows slower growth of industrial production in BiH

International credit rating agency „Moody's Investor Service", has kept the level of credit rating in BiH on B2, with negative trends, while agency „Standard & Poor's" decreased credit rating of BiH from B+ to B, placing the rating under observation for possible negative trends. Slow economic recovery in BiH, with growth of 2% and less in 2011, and further decreasing that is expected in 2012, matches the situation in the region and the rest of the Europe. Strengthening of institutions through the implementation of structural reforms, simplification of the process of bringing political decisions, improvement of relations between entities and finances of governments, are main factors for the improvement of the credit rating. State government has been constituted only in December 2011, that is more than a year after the elections, and this means there were no economic reforms that would provide more acceptable environment for business activities of companies in BiH.

Some companies in Federation of BiH have already stopped their activities, or have liquidity problems, that affect their ability to pay their commitments to the Bank, and irregular salary payments. Because of this, clients risks late financing repayment, as well as their employees who have financing of customers at the Bank as clients – physical persons. All this has influenced increase in Bank's expenses, by forming impairments for past due receivables.
The labour market continues to stagnate. Unemployment remained in the same high level during entire 2011.

Monetary policy is still in accordance with the Currency Board and has proven to be good mechanism during the financial crisis.

Even though the total effects of the financial crisis cannot be predicted, management of the Bank believes it is taking all the necessary measures to support the sustainability and growth of the Bank's business in the current circumstances.

1. General information (continued)

Impact on liquidity

Until the breakout of the financial and economic crisis, under normal operating conditions of banks and stable environment, the liquidity risk was of secondary importance, and the credit risk was in the foreground. After the transfer of global crisis and its negative influence on the financial and economic system in BiH, there was an increase in liquidity risk.

In order to overcome financial issues and to maintain the liquidity, the Bank has increased monitoring of liquidity risk, and it has updated and adjusted liquidity plans in accordance with the current situation. The Bank is also constantly monitoring deposits of big depositors, their maturity dates, and it communicates with such depositors on a regular basis.

The Management of the Bank believes that it will continue to manage liquidity risk in a satisfactory way, by considering it as a permanent obligation and a basic assumption for the sustainability on the financial market.

Impact on customers/borrowers

The impact of the global economic crisis on the territory of Bosnia and Herzegovina has also influenced the core bank business, which is the granting of the credit. During 2011, the banks have significantly decreased and restricted credit availability. The limiting factor of credit growth is from one side availability of new resources, and on the other side increasing influence of the crisis on the Bosnia and Herzegovina economy and deterioration of the situation in the real economy.

To reduce the impact of the global economic crisis on the Bank several measures have been taken in order to adapt to the movement of the portfolio to the market conditions and other preventive measures to cushion the impact of the crisis and its possible impact on the Bank`s operations and achieving planned goals at the end of the year.

The most important measures and actions in order to minimize the impact of the financial crises on the Bank`s successful operations in lending, especially against the decrease of quality of the financing portfolio, are the following:

- Selective approach to all customers who have shown to be sensitive to the crises.
- Rescheduling of finance obligations with a delay up to 90 days in accordance with the decisions of the Federal Banking Agency.
- Stronger monitoring in the early stages of delayed financing obligations
- Regular Group meetings in order to monitor the collection of financing claims.

During the previous period, the global economic crisis did not have any significant impact on the Bank`s lending operations. The Bank monitors and analyzes the status and the quality of the credit portfolio, and in accordance with requirements takes appropriate measures. The analysis of risk of every new placement and collection of matured claims have been intensified. The overall monitoring and tracking of clients has been enhanced, especially clients with a higher level of investments. Througout 2011 the Bank conducted monthly a review and careful evaluation and classification of each financing contract. Internal procedures in the area of credit operations are consistently respected and implemented.

Also, the corporate financing portfolio, as apart of the whole portfolio has a satisfactory sectoral structure. The Bank`s portfolio has a high-qualitiy dispersion in terms of industrial sectors, and more sensitive sectors such as construction and the metal industry have limited involvement in the total portfolio.

(All amounts are given in BAM '000, unless otherwise stated)

1. General information (continued)

Impact on collateral (especially real estate):

The amount of provision for impaired financing of customers is based on management's appraisals of these assets at the reporting date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The market in Federation of BiH for many types of collateral, especially real estate, has been severely affected by the recent volatility in global financial markets resulting in there being a low level of liquidity for certain types of assets. As a result, the actual realizable value on foreclosure may differ from the value described in estimating allowances for impairment.

In the course of its business activities, the Bank uses a pledge over assets, as one of the most common elements for ensuring the collection of receivables from clients. In accordance with the Instructions for the use of collaterals, the Bank takes pledges over immovable assets, with a ratio 1.5 to 2 times higher than the value of receivables and 2 to 3 times higher than the value of the claims, depending on if the Bank`s claim is covered only by receivables.

The Bank regularly follows movement of the market value of collateral. Market value of pledged property is monitored by the Bank by repeated re-assessment of market value of property by official court valuator once in a year or a internal assessment by an authorized officer of the Bank.

Fair value of financial assets and liabilities

The fair values of quoted investments in active markets are based on current bid prices (financial assets) or offer prices (financial liabilities). If there is no active market for a financial instrument, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the reporting date management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and financing spreads.

2. Summary of significant accounting policies

2.1 Basis for preparation and presentation of financial statements

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

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings (if any)and available for sale securities, in addition IAS 39 has only been introduced for banks in 2011 (Note 2.2.).

The Bank has not applied the following standards, amendments and interpretations, which although effective for 2011 have not been translated in the Federation of Bosnia and Herzegovina and/or 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;

2. Summary of significant accounting policies (continued)

- 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 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 finance features"). All other debt instruments are to be measured at fair value through profit or loss.

2. Summary of significant accounting policies (continued)

- 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.

- ***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.

2. Summary of significant accounting policies (continued)

- ***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 statement of financial position. 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 derecognized, 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.

- **Amended IAS 1, ' Additional exemptions for first-time adoption',** released in July 2009 is applied at annual periods that begin on or after 01 January 2010.

- ***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 Companies, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Company expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

- ***Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013),*** makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income.

- ***Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013).*** The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.

- ***Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).*** The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the 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 hyper-inflation 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 Company's financial statements.

Definitons

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

Murabaha

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

Musharaka

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

Wakala

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

Ijara

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

Financial statements are based on historical costs except for financing of clients who are carried at amortized cost and financial assets at fair value through the income statement at fair value.

2.2 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.

2. Summary of significant accounting policies (continued)

The principal change relates to the adoption of IAS 39 – Financial instruments: Recognition and Measurement, when calculating financing 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 financing of customers 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 to opening balances for 2011, resulting in a restatement of opening financing loss reserves. The impact of the change in the financing loss provisioning accounting policy has been adjusted through opening statutory reserves for 2011 (refer to the statement of change in equity). IAS 8 requires that change in accounting policy should be reflected in the earliest period presented. However the banking regulatory has approved the approach taken by the Bank to reflect the change in the opening balances for 2011.

(All amounts are given in BAM '000, unless otherwise stated)

2. Summary of significant accounting policies (continued)

Statement of financial position

	Note	2010	Restated	2010 revised
ASSETS				
Cash and balances with banks	14	38,547	(1)	**38,546**
Cash and the balances with the Central Bank of Bosnia and Herzegovina	15	23,458	-	**23,458**
Placements to banks	16	62,590	(505)	**62,085**
Assets available for sale	17	57	-	**57**
Financial assets at fair value through profit or loss	18	487	-	**487**
Financing of customers	19	172,636	1,986	**174,622**
Income tax prepayments		153	-	**153**
Other assets	20	496	153	**649**
Defferred tax assets	28	25	-	**25**
Property and equipment	21	8,550	-	**8,550**
Intangible assets	22	115	-	**115**
TOTAL ASSETS		**307,114**	**1,633**	**308,747**
LIABILITIES				
Due to banks	24	29,544	-	29,544
Due to customers	23	223,700	-	**223,700**

(All amounts are given in BAM '000, unless otherwise stated)

2. Summary of significant accounting policies (continued)

Statement of financial position

	Note	2010	Restated	2010 revised
Borrowings	25	804	-	**804**
Other liabilities	26	2,620	-	**2,620**
Provisions for liabilities and charges	27	1,369	1,251	2,620
TOTAL LIABILITIES		**258,037**	**1,251**	**259,288**
SHAREHOLDERS` EQUITY				
Share capital	28	50,059	-	**50,059**
Statutory reserves		23	382	**405**
Accumulated losses / gains		(1,005)	-	**(1,005)**
TOTAL SHAREHOLDERS EQUITY		**49,077**	**382**	**49,459**
TOTAL EQUITY AND LIABILITIES		**307,114**	**1,633**	**308,747**

Statement of financial position for year ended 2010 is restated in order to comply with current year presentation requirements in accordance with IAS 8. Effects are shown in equity in accordance with local legislation requirement, and form part of statutory reserves in 2010 and 2011. The amount of BAM 382 thousands in 2010 is the impact of the difference between the previously applied local legislation rules prescribed by FBA for calculation for risk provisions and calculation after adoption of IAS 39.

The impact is the sum of changes to financing of customer and interbanks provisioning as well as changes resulting form the new approach to provisioning off balance sheet items, reflected in liabilities.

(All amounts are given in BAM '000, unless otherwise stated)

2. Summary of significant accounting policies (continued)

2.3 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 used in financial reports are the official rates established by the Central Bank of Bosnia and Herzegovina. On 31 December the following exchange rates were used:

Exchange rate

	2011 BAM	2010 BAM
USD	1,5116	1,4728
EUR	1,9558	1,9558

2.4 Income from operations with clients

Net income from financing represents Bank's share in income generated through investments of Clients' assets that the Bank gave on disposal after deduction of expenses related to collection of invested assets.

Murabaha and Wakala
Income is recognized during validity period of contracts, having in mind effective profit margin.

Musharak and Ijara
Income is calculated using effective interest rate to the declining principal amount.

In accordance with principles of Islamic banking, amounts held by Clients in bank and deposit accounts can be used as one of sources for financing Musharaka projects, and expenses related to those deposit accounts are recognized as expenses related to Musharaka transactions.

In accordance with Shariat law, the Bank cannot generate income from interest rate. All interest rate amounts are donated to charity.

2.5 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.

Fees for approval of financing and guarantees in 2010 and 2011 are deferred, after initial approval and withdrawal of assets, and they are subsequently recognized as adjustment of effective yield on financing, during the financing period.
Fee and commission income relate to local and international payment operations, income from off- operations (issuing guarantees), brokerage and dealing operations etc.

Fee and commission expenses relate to fees paid to the Central Bank of Bosnia and Herzegovina for the local payments operations, SWIFT costs, costs of card business, fees paid to the FBA for supervision of the banking sector, etc.
Fee and commission expenses are recognized in the period when they occurred.

2.6 Lease payments

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

2. Summary of significant accounting policies (continued)

2.7 Employee expenses and related contributions

On behalf of its employees, the Bank is paying pension and health insurance on and from salaries, which are calculated on the gross salary paid, as well as taxes, which are calculated on the net salary paid. In addition, meal allowances, transport allowances and vacation bonuses are paid in accordance with the local legislation. These expenses are recorded in the profit or loss in the period in which the salary expense is incurred. Except for conditions defined by the law, the Bank has no other retirement schemes or payments after retirement, and in accordance with this, it has no liabilities related to retirement.

2.8 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.

2.9 Financial assets

Financial assets arise from financing operations, foreign exchange operations, deposits, payments operations, acting as intermediary in securities trading, purchase and collection of receivables and from providing other banking services.

The Bank classifies its financial assets in the following categories: financing of customers and receivables, financial assets at fair value through profit or loss, financial assets available-for-sale and financial assets held to maturity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

(All amounts are given in BAM '000, unless otherwise stated)

2. Summary of significant accounting policies (continued)

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued profit margin, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective profit margin method. Accrued profit margin income and accrued profit margin, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective profit margin is a method of allocating profit margin income or profit margin over the relevant period, so as to achieve a constant periodic rate of profit margin (effective profit margin) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective profit margin discounts cash flows of variable interest instruments to the next profit repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective profit margin.

Cash and cash equivalents. For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, financing of customers and advances to banks.

In the Statement of Financial Position, cash and cash equivalents comprise of the following items: cash in hands in local and foreign currencies, held within the Bank's Vault and cashier's offices, mandatory reserve with the Central Bank BiH.

Financial assets available for sale. Financial assets available for sale are all other that are not classified in three other groups. Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as financing of customers and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

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. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in equity and other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in other comprehensive income are included in the statement of comprehensive income as net realized gains or losses on financial assets.

In case of de-recognition of assets available for sale, the cumulative gain or loss previously recognized in equity is transferred to profit or loss.

2. Summary of significant accounting policies (continued)

Financial assets at fair value through profit and loss. Financial assets at fair value through profit and loss has two categories: financial instruments held for trading (including derivatives) and those placed by the Management in this category. Financial instruments are placed in this category if they were made or acquired for the purpose of sale or purchase within short period of time, for the purpose of short term gain acquisition, or by the Management's decision.

Financial assets stated at fair value through income statement are recognised by the Bank on date of trading with those assets.

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

Financial assets at fair value through profit and loss are initially recognised at fair value. All transaction costs are immediatelly recognised in income statement. Subsequent measurement is also carried at fair value.

Determination of fair value

The fair value of financial assets and liabilities at fair value through profit or loss and financial assets available for sale is their quoted bid market price at the reporting date without any deductions for selling costs. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reason, the fair value cannot be reliably measured by market price, the Company establishes fair value by using valuation techniques. These include the use of prices achieved in recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate related to the reporting date for a financial instrument with similar terms and conditions. Where a pricing model is used, inputs are based on market related measures at the reporting date.

Derecognition

The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The above mentioned scenario occurs when the Bank transfers all risks and benefits related to ownership to another business entity or, when its rights were achieved, transferred or expired.

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.

Specific financial instruments

Placements with other banks (Murabaha). Murabaha transactions represent investments in sale and purchase of goods recognized as placements with other banks. Difference between purchase and sale price is treated as return rate on the basis of investments, and it is calculated during validity of sale and purchase agreement, using effective interest method. These investments are classified as financial instruments and they are stated at amortised cost.

All other purchases and sales of investments are recognized at the transaction date, when the Bank acquired liability to buy or sell assets.

2. Summary of significant accounting policies (continued)

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

Financing of customers are subsequently measured in the Statement of Financial Position at the amount of principal outstanding, less impairment and increased by accrued interest. Financing of customers are subsequently measured at amortized cost using effective interest rate method. (Note 13)

Investment in other companies. Investments in other companies are classified as available for sale and they are measured at fair value, unless there is a reliable fair value measure, when these investments are stated at cost net of impairment allowances.

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.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue financing of customers . The assets are initially recognised at fair value when acquired and included in other assets, other financial assets or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Financing of customers related commitments. The Bank issues financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as financing of customers. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment

Impairment of financial assets

Impairment of financial assets relates to financial assets classified as financing of customers and receivables carried at amortized costs and off-balance sheet items, in particular:

- **Balance sheet exposure:**
  - ¤ Financing of customers
  - ¤ Overdrafts/current accounts, revolving financing lines of customer/financing lines,
  - ¤ Receivables such as guarantees and bills

- **Off - balance sheet exposure:**
  - ¤ Guarantees
  - ¤ Letters of credit
  - ¤ Unused portions of financing (including overdrafts, other revolving products, unused approved financing etc)

Impairment calculation covers the following:
- Retail exposures
- Corporate and SME exposure
- Bank and other financial institutions exposure
- Government and municipalities exposure
- Other receivables (including IAS 39 category 'loans and receivables,' that have not been previously included

All individually significant exposures for which loss events have been identified are measured individually. This approach is used for all clients and all types of exposures.

(All amounts are given in BAM '000, unless otherwise stated)

2. Summary of significant accounting policies (continued)

When expected future cash flows for previously impaired exposures fully cover exposure, Bank will not make additional provisions.

Bank applies portfolio impairments when:
Clients meet their obligations (Portfolio financing loss provisions)
Clients do not meet their obligations, but exposures are not individually significant (Specific financing loss provisions)

a. Assets carried at amortised cost

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. If such evidence is identified, the recoverable amount of assets is being evaluated.

Client financing is given net of impairment, in order to reflect their estimated recoverable value. Specific provisions for unclollectable amounts are formed in comparison with carrying amount of client financing, whose value is identified as impaired, based on regular balance reviews.

Impaired financial assets are classified in categories, depending from collectability level, which is being determined based on a number of days in default, estimate of financial position of the debtor and quality of security instruments for collection of assets. Provisions are determined using provision rates, as determined by the Agency, to the unchargeable principle amount.

Increase in provisions is recognized in income statement.

If the receivables from financings and advances to customers are unchargeable, and all legal procedures have been completed and the final amount of loss is determined, those receivables are directly written off. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognised impairment loss is recognised in the income statement.

Assets carried at amortised cost includes ownership shares available for sale, for which there is no reliable fair value. On each balance sheet date, the Bank estimates whether there is an objective evidence on impairment of certain financial assets or group of financial assets.

b. Estimates of potential losses on financial assets in accordance with the requirements of the Banking Agency of the Federation of Bosnia and Herzegovina.

In accordance with the Decision of the Federal Banking Agency (FBA) classification of assets and statement of financial position items according to the degree of collectability, the Bank is required to classify financing, placements and other off-balance sheet items and its exposure to risk in categories A, B, C, D and E in accordance with the assessment collectability of financings and other investments on the basis of orderliness in payment of obligations of the debtor, debtor's financial position and collateral secured claims. The estimated amount of reserves for potential losses is calculated using the following percentage: 2% of financings classified in category A, 5% - 15% of the financings category B, 16% - 40% on financings from category C, 41 - 60% on financings from category D and 100% of the financings category E.

The difference between the correction values determined in the manner disclosed in Note 2.2 and estimated reserves for potential losses on financings and advances classified into categories, is recorded in the reserve account in equity, and allocation of these reserves is done at the expense of retained earnings to the amount of retained earnings. A bank that is a loss maker doesn't separate these reserves, but the missing amount of the estimated reserves is disclosed.

(All amounts are given in BAM '000, unless otherwise stated)

2. Summary of significant accounting policies (continued)

c. *Assets classified as held for sale and assets at fair value through profit and loss*

Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is showing signs of impairment. In the case of securities classified as available-for-sale, a significant decline or continued decline in the fair value of the security below its cost is indicated that such security is impaired. If there is evidence of impairment of financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value - it is recognized in the profit or loss. If, in future, the fair value of debt instruments classified as available for sale increases as result of an event occurring after the impairment loss is recognized in the profit or loss for impairment, loss is reversed through other comprehensive income.

2.10 Provisions

Provisions for legal claims are recognized when:

- the Bank has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation;
- the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in a settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expected cash outflows to be required to settle the obligation.

For off-balance sheet liabilities provisions are formed in the following cases:

- Due to past event, because of which present payment liability of the bank exists
- There is more than 50% probability that the bank will have to settle the liability
- If it is possible to precisely measure the amount of the liability and to form provision in the same amount

2.11 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.

Depreciation is calculated using linear method, based on estimated useful life of an asset.

Estimated depreciation rates were as follows:

	2011	2010
	%	%
Buildings	1.3 – 2.0%	1.3 – 2.0%
Computers	20.0 – 33.3%	20.0 – 33.3%
Vehicles	15.5%	15.5%
Other equipment	7.0 – 33.3%	7.0 – 33.3%

(All amounts are given in BAM '000, unless otherwise stated)

2. Summary of significant accounting policies (continued)

Impairment

At each balance sheet date, the Bank reviews the carrying amounts of its property, plant and equipment, in order to determine if there is any evidence of losses occurred due to impairment of the above mentioned assets. If the Bank determin such evidence, the recoverable amount of assets is being estimated, in order to be able to determin potential loss from impairment of assets.

Recoverable value is net selling price or value in use, depending on which of the two is higher. For the purposes of evaluation of value in use, estimated future cash flows are discounted to the present value using discount rate before taxation, which reflects the current market evaluation of time value of cash and risks specific to that asset.

If the estimated recoverable amount of an asset is lower than the carrying amount, then, the carrying amount of that asset is impaired to the recoverable amount. Impairment losses are recognized as an expense, unless that asset is a land or a building which is not use as an incestment property, and which is stated at revaluated amount, and in that case, the impairment losses are stated as decrease of value, caused by the revaluation of an asset.

With subsequent cancelling of impairment losses, the carrying amount of assets is being increased to the revised estimated recoverable amount of that asset, and this carrying amount is not higher than carrying amount that would be determined if in the previous years there were no recognized losses to those assets, due to impairment. Cancelling of impairment losses is recognized as income, if the asset is not stated at estimated value, when the cancelled impairment losses are stated as increase due to revalorization.

2.12 Intangible assets

a. Licences

Acquired licences for computer software are shown at historical cost.

Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives.

b. Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads.

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:

Software and licence	5 years

Amortisation method and estimated useful life are reviewed and corrected, if necessary, at each balance sheet date.

(All amounts are given in BAM '000, unless otherwise stated)

2. Summary of significant accounting policies (continued)

2. 13 Emloyee 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 equal to interest rate of state securities.

2.14 Taxation

Taxes are calculated in accordance with laws and regulations of the Federation of Bosnia and Herzegovina, on the basis of profit or loss recognized in profit or loss which is prepared in accordance with accounting standards. The tax on income for the reporting period, in accordance with income tax law is at the rate of 10%.

Deferred tax is recognized for temporary differences between tax basis of assets and liabilities and their book values for the purpose of financial reporting by using the liability method and is determined using tax rates that have been enacted at the reporting date and are expected to apply when the related deferred tax item is realized. Provisions are determined for the total amount of the deferred tax liability. Deferred tax assets are recognized to an extent to which it is probable that they will be available for decrease of current tax liability in the future.

The Bank did not have any deferred tax assets or liabilities as of the reporting date.

2.15 Borrowings

Borrowings are recognised initially at contracted value that represents amount received. Borrowings are subsequently stated at amortised cost, and incurred transaction costs are recognised in the profit or loss of the period.

2.16 Share capital

Share capital

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

Dividends

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

2. Summary of significant accounting policies (continued)

2.17 Statutory reserves

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.

2.18 Off-balance sheet commitments and contingent liabilities

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

2.19 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.

2.20 Related party transactions

According to IAS 24 related parties are parties that represent:

- The parties which directly, or indirectly through one or more intermediaries, control are controlled by, or is under common control with, the entity;

- Parties in which the Bank has an interest in the entity that gives it significant influence over the entity and that are neither related parties nor joint investment;

- Private individuals who directly or indirectly have voting power in the Bank that gives them significant influence over the Bank, or any other subject which is expected to influence or be influenced by a related party to the Bank;

- Members of the key management personnel i.e. individuals with authorizations and responsibilities for planning, managing and controlling the Bank's operations, including directors and key management.

When taking into account each possible transaction with a related party, attention is focused on basis of relationship not just legal form (Note 31).

(All amounts are given in BAM '000, unless otherwise stated)

3. Financial risk management

3.1 Strategy in use of financial instruments

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

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

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

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

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

3.2 Credit Risk

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

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

Credit risk management and policy provisions and impairment

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

(All amounts are given in BAM '000, unless otherwise stated)

3. Financial risk management (continued)

Credit risk exposure	2011	2010 Restated
Cash and balances with the Central Bank of Bosnia and Herzegovina	62,406	38,546
Mandatory reserve with Central Bank	20,444	23,458
Placements in other banks	39,376	62,085
Financial assets available for sale	57	57
Financial assets at fair value through profit or loss	394	487
Financing of customers	201,508	174,622
Income tax prepayments	41	153
Other assets	2,535	649
Total balance sheet exposure	**326,761**	**300,057**

The following table presents maximum credit risk exposure for statement of financial position items:

31 December 2011	Total carrying value	Individual impairment	Collective impairment	Total net carrying value
Cash and balances with the Central Bank of Bosnia and Herzegovina and other banks	62,407	-	(1)	62,406
Mandatory reserve with Central Bank	20,444	-	-	20,444
Placements in other banks	39,412	-	(36)	39,376
Financial assets available for sale	57	-	-	57
Financial assets at fair value through profit or loss	394	-	-	394
Financing of customers	211,001	(3,532)	(5,961)	201,508
Income tax prepayments	41	-	-	41
Other assets	2,625	-	(90)	2,535
Total	**336,381**	**(3,532)**	**(6,088)**	**326,761**

(All amounts are given in BAM '000, unless otherwise stated)

3. Financial risk management (continued)

31 December 2010 Restated	Total carrying value	Individual impairment	Collective impairment	Total net carrying value
Cash and balances with the Central Bank and other banks	38,547	-	(1)	38,546
Mandatory reserve with Central Bank	23,458	-	-	23,458
Placements in other banks	63,148	-	(1,063)	62,085
Financial assets available for sale	57	-	-	57
Financial assets at fair value through profit or loss	487	-	-	487
Financing of customers	182,036	(2,525)	(4,889)	174,622
Income tax prepayments	153	-	-	153
Other assets	694	-	(45)	649
Total	**308,580**	**(2,525)**	**(5,997)**	**300,057**

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2011 and 31 December 2010, without taking account of any collateral held or other credit enhancements attached.

The Bank holds collateral as security for financing of customers in the form of mortgages over property, other pledges over assets, and guarantees. Assessments of collateral value are based on the assessment at the time of initiation of the financing by chartered court experts. Subsequent assessments of collateral value are a result of internal procedure for collateral management, as defined by internal act 'Decision on definition, estimation and treatment of collateral.' The first step in estimation is assessment by the court appointed expert which Bank analyzes and adjusts where necessary. Additional adjustments are important in cases where assessments done by the real estate experts is not up to date.

Financial assets or a group of financial assets are impaired if, and only if, there is a reasonable evidence of impairment, as a result of one or more events that occurred after asset recognition ('loss events') and if, and only if, that event has a measurable impact on estimated future cash flows of particular financial assets or group of financial assets. Possible or expected future cash flows that can lead to losses in future do not represent reasonable evidence for impairment values.

(All amounts are given in BAM '000, unless otherwise stated)

3. Financial risk management (continued)

In accordance with IAS 39.64, Bank estimates if there is reasonable evidence for individual impairment of financial asset that is individually significant, and if there is reasonable evidence for individual or collective impairment of financial assets that carries no significant individual risk.

If Bank estimates that there is no reasonable evidence for impairment based on individually assessed assets, no matter whether they are significant or not, they will be included with assets that carry similar type of risk and they will be assessed for financing loss provisions on a group level.

In accordance with IBNR (Incurred but Not Reported), Bank creates financing loss provisions for exposure where loss events occurred, but losses could not be linked to specific exposures. In accordance with the methodology, the Bank creates provisions for all exposures which are not in default in the estimated amount of exposure where event of loss occurred, but was not individually identified by the Bank. For IBNR provisions, it is assumed that initial recognition of assets is at fair value, taking into consideration all information available at the time when contract has been made (including potential financing losses). Initial measurement of recognized financial assets includes in its value the probability of default on the date of contract.

Losses from impairment on group level represent identification of loss events on individual assets in group of financial assets for which group impairment provisions are created. When and if information for individual identification is available, an asset is individually impaired.

If an event of loss results in decrease of net carrying value of cash flows with related exposures noted on balance sheet date, it is necessary to create provisions in the amount that suits projected loss as a result of default under contract. Provisions match the difference between accounting value of exposure and net carrying value of future cash flows, under the assumption that exposure will end up in default, and that realization over collateral will begin. These cash flows have to include projected repayment of principal and interest, including collateral payment impaired for all expenses related to collection process. In order to calculate their present value, future cash flows are discounted using effective interest rate. The method of financial assets impairment is based on their accounting values of exposure and net present value of future inflows.

(All amounts are given in BAM '000, unless otherwise stated)

3. Financial risk management (continued)

The table below shows the gross amount of assets exposed to credit risk for each category of reserves of the Bank, together with related amount of impairment losses

	Gross maximum exposure	Impairment provision	Maximum exposure
31 December 2011			
Non default	282,269	(3,919)	278,350
Default	30,550	(5,610)	24,940
	312,819	(9,529)	303,290
31 December 2010 Restated			
Non default	259,627	(3,736)	255,891
Default	24,105	(4,742)	19,363
	283,732	(8,478)	275,254

(All amounts are given in BAM '000, unless otherwise stated)

3. Financial risk management (continued)

Exposure to credit risk from financing customers and investment in banks is as follows:

	Banks		Corporate		Retail		Total	
	Gross	Risk provision	Gross	Risk provision	Gross	Risk provision	Gross	Risk provision
31 Decembar 2011								
Without rating	101,818	(36)	-	-	-	-	101,818	(36)
Non default	-	-	115,321	(3,074)	65,130	(809)	180,451	(3,883)
Default	-	-	24,260	(2,933)	6,290	(2,677)	30,550	(5,610)
Total	**101,818**	**(36)**	**139,581**	**(6,007)**	**71,420**	**(3,486)**	**312,819**	**(9,529)**
Total (net)	**101,782**		**133,574**		**67,934**		**303,290**	
31 December 2010 Restated								
Without rating	101,694	(1,063)	-	-	-	-	101,694	(1,063)
Non default	-	-	104,454	(1,912)	53,481	(761)	157,935	(2,673)
Default	-	-	20,022	(3,086)	4,081	(1,656)	24,103	(4,742)
Total	**101,694**	**(1,063)**	**124,476**	**(4,998)**	**57,562**	**(2,417)**	**283,732**	**(8,478)**
Total (net)	**100,631**		**119,478**		**55,145**		**275,254**	

(All amounts are given in BAM '000, unless otherwise stated)

3. Financial risk management (continued)

Provisions for impairment and provisioning policy

Impaired financings and securities are those financings and securities for which the Bank determines that it is not likely it will be able to collect all principal and accrued profit margin under the provisions of the financing agreement / securities. Individually impaired assets are those assets that are individually assessed to have been impaired and have estimated losses recognized. The Bank assesses impairment of receivables for incurred losses in the financing portfolio.

Classification of receivables is based on an analysis of delays in settlement of obligations and indicators of return. In the case of single financing impairment, future estimated cash flows are discounted in accordance with the requirements of IAS 39, to arrive at an appropriate amount of provision.

Financing of customers and advances net of provisions are presented in the table below:

	Total financing of customers receivables	Impairment losses	Financing of customers receivables
31 December 2011			
Portfolio risk provisions	183,252	(5,961)	177,291
Specific risk provisions	27,749	(3,532)	24,217
	211,001	**(9,493)**	**201,508**
31 December 2010 Restated			
Portfolio risk provisions	163,993	(4,889)	159,104
Specific risk provisions	18,043	(2,526)	15,517
	182,036	**(7,415)**	**174,621**

Collateral

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

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

Fair value of net assets is based on the estimated value of the security instrument at the time of borrowing, and is updated periodically in accordance with the relevant financing policy.

(All amounts are given in BAM '000, unless otherwise stated)

3. Financial risk management (continued)

Financing and collateral exposure:

	Retail		Corporate		Total	
	Maximum exposure to financing risk	Fair value of collateral	Maximum exposure to financing risk	Fair value of collateral	Maximum exposure to financing risk	Fair value of collateral
31 December 2011						
Net credit exposure	67,934	83,025	133,574	285,360	**201,508**	**368,385**
31 December 2010 Restated						
Net credit exposure	55,145	62,516	119,477	130,641	**174,622**	193,157

Maturity and the impairment of financing of customers, which include financing of customers and advances and financing of banks, can be summarized as follows

	Neither due nor impaired financing of customers	Due not impaired	Impaired receivables	Impairment allowance	Total
31 December 2011					
Corporate	37,480	1,342	100,759	(6,007)	133,574
Banks	101,818	-	-	(36)	101,782
Individuals	15,228	144	56,048	(3,486)	67,934
Total	**154,526**	**1,486**	**156,807**	**(9,529)**	**303,290**
31 December 2010 Restated					
Corporate	13,311	144	111,021	(4,998)	119,478
Banks	101,693	-	-	(1,063)	100,630
Individuals	8,479	42	49,041	(2,417)	55,145
Total	**123,483**	**186**	**160,062**	**(8,478)**	**275,253**

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(All amounts are given in BAM '000, unless otherwise stated)

3. Financial risk management (continued)

The following table presents aging analysis of past due and not past due, impaired and not impaired balance sheet items as of 31 December (including placements to banks and financing of customers and advances to customers):

	Neither due nor impaired financing of customers	Due not impaired	Impaired receivables	Impairment allowance	Total
31 December 2011					
Up to 30 days	105,084	20,687	153,260	(4,342)	**274,689**
From 30 to 90 days	1,220	59	5,017	(126)	**6,170**
Over 90 days	9,069	1,054	17,368	(5,060)	**22,431**
Total	**115,373**	**21,800**	**175,645**	**(9,528)**	**303,290**
31 December 2010					
Restated					
Up tp 30 days	58,377	7,436	177,117	(4,685)	**238,245**
From 30 to 90 days	113	4	2,122	(59)	**2,180**
Over 90 days	2,131	85	36,347	(3,735)	**34,828**
Total	**60,621**	**7,525**	**215,586**	**(8,479)**	**275,253**

(All amounts are given in BAM '000, unless otherwise stated)

3. Financial risk management (continued)

The Bank monitors concentration of credit risk by industry segments and geographic locations. Concentration risk in the gross balance sheet exposures by industry is as follows:

		2011		2010
Concentration risk by industry sector	**BAM**	**%**	**BAM**	**%**
Agriculture, hunting, fishing	1,133	0.56	894	0.49
Production	50,299	24.96	39,738	21.83
Construction	13,829	6.86	15,992	8.79
Trade	47,730	23.69	51,274	28.17
Tourism	4,774	2.37	4,210	2.31
Transport and communications	4,092	2.03	4,251	2.34
Financial institutions	1,053	0.52	1,503	0.83
Property	6,415	3.18	2,329	1.28
Other	244	0.12	3,037	1.67
Education and other public services	-	-	38	0.02
Entrepreneurs	1,801	0.89	2,103	1.16
Total corporate	**131,370**	**65.19**	**125,369**	**68.87**
Housing	41,831	20.76	31,590	17.35
Other	28,307	14.05	25,078	13.78
Total residents	**70,138**	**34.81**	**56,668**	**31.13**
Total	**201,508**	**100.00**	**182,037**	**100.00**

The structure of client financing is regularly monitored by the Risk Management Division and the Financing Committee in order to identify possible events that could have a major impact on the client financing portfolio (the usual risk factors), and if necessary reduce bank exposure to certain sectors of the economy.

Financing of customers are given to clients in Bosnia and Herzegovina

(All amounts are given in BAM '000, unless otherwise stated)

3. Financial risk management (continued)

Reprograms and restructuring

Renegotiated asset is an asset which is refinanced, 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). Decision on restructuring is made by the competent body of the Bank in accordance with the decision on responsibilities in lending process.

Restructured and refinanced financing of customers as of 31 December 2011 and 2010 can be summarized as follows:

	Number of restructured financing of customers	Gross financing of customer receivable
31 December 2011		
Corporate	41	26,793
Retail and SME	14	1,793
Total	**55**	**28,586**
31 December 2010		
Corporate	54	30,225
Retail and SME	-	-
Total	**54**	**30,225**

Intensive client monitoring

The Bank introduces intensive monitoring of clients whose placements still do not fulfil conditions for transfer into non-quality assets, and that demand careful processing and monitoring of operating activities. Such clients are placed on the intensive monitoring list, due to different operating elements (large placement volume, negative operating trends, increase of debt, establishment of the capital adequacy, non-payment or irregular payment of liabilities). Initiative for placing a specific client on the intensive monitoring list comes from the business units of the Bank, and the decision on the actual placing on the list comes from the Bank's management. Intensive monitoring means that the client monitoring remains in the operating unit of the Bank, and the employees of the Department for high-risk placements are being involved in the processing, as well as employees of the Legal department, if needed.

3. Financial risk management (continued)

Intensive client monitoring is terminated in following cases:

- due to dismissal of all placements of the Bank (by payment, or disposal)
- due to improvement of the client's status and rating into higher rating class (if the client accomplishes main values of indicators or other given goals)
- by the decision of the Bank's Credit board on transfer of the clients' receivables to the Department of re-structured placements (in case of further deterioration of the client's status)
- by initiating insolvency proceeding over the client
- in all other cases when the Bank's management brings the decision on termination of the intensive client monitoring.

3.3. 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 profit margin, foreign currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit margin, credit spreads, foreign exchange rates and equity prices.

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

3.4. Foreign exchange risk

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

Treasury department is responsible for daily management of the Bank's currency position in accordance with legal and internal regulations.
In order to manage foreign exchange rate risk more efficiently, the Bank monitors economic and other business changes in the environment in order to predict possible changes in foreign currency activities, exchange rates, currencies and risk.

(All amounts are given in BAM '000, unless otherwise stated)

3. Financial risk management (continued)

Concentration of currency risk of assets and liabilities

The Bank had the following significant currency positions as at 31 December 2011 and 31 December 2010. The Bank has a number of contracts which are in domestic currency but are linked to foreign currency. The domestic currency value of the principal balances and profit margin payments are therefore determined by movements in foreign currencies.

As at 31 December 2011	BAM	EUR	USD	Other	Total
Assets					
Cash and balances with banks	37,521	20,028	2,434	2,423	62,406
Obligatory reserve with the Central Bank	20,444	-	-	-	20,444
Placments with other banks	-	36,947	2,429	-	39,376
Assets available for sale	27	-	30	-	57
Financial assets at fair value Through profit or loss	310	84	-	-	394
Financing of customers	201,415	93	-	-	201,508
Income tax prepayments	41	-	-	-	41
Other assets	2,461	23	-	51	2,535
Non-current asset held for sale	483	-	-	-	483

(All amounts are given in BAM '000, unless otherwise stated)

3. Financial risk management (continued)

As at 31 December 2011	BAM	EUR	USD	Other	Total
Deffered tax assets	-	-	-	-	-
Property and equipment	9,592	-	-	-	9,592
Intangible assets	285	-	-	-	285
Total assets	**272,579**	**57,175**	**4,893**	**2,474**	**337,121**
Liabilities and equity					
Due to banks	-	35,288	-	-	35,288
Due to customers	133,610	91,878	4,791	1,454	231,733
Borrowings	13,272	-	-	-	13,272
Other liabilites	2,473	455	50	324	3,302
Provisions for liabilities and charges	1,311	556	121	-	1,988
Share capital and reserves	51,538	-	-	-	51,538
Total liabilities and equity	**202,204**	**128,177**	**4,962**	**1,778**	**337,121**
Net foreign exchange position	**70,375**	**(71,002)**	**(69)**	**696**	**-**

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

(All amounts are given in BAM '000, unless otherwise stated)

3. Financial risk management (continued)

As at 31 December 2010 Restated	BAM	EUR	USD	Other	Total
Assets					
Cash and balances with banks	18,692	13,700	5,084	1,070	38,546
Obligatory reserve with the Central Bank	23,458	-	-	-	23,458
Placments with other banks	-	60,501	1,584	-	62,085
Assets available for sale	29	-	28	-	57
Financial assets at fair value Through profit or loss	358	129	-	-	487
Financing of customers	174,525	97	-	-	174,622
Income tax prepayments	153	-	-	-	153
Other assts	594	44	11	-	649
Deferred tax assets	25	-	-	-	25
Property and equipment	8,550	-	-	-	8,550
Intangible assets	115	-	-	-	115
Total assets	**226,499**	**74,471**	**6,707**	**1,070**	**308,747**
Liabilities and equity					
Due to banks	-	29,544	-	-	29,544
Due to customers	121,202	95,486	6,624	388	223,700
Borrowings	804	-	-	-	804
Other liabilites	2,014	191	100	315	2,620
Provisions for liabilities and charges	2,620	-	-	-	2,620
Share capital and reserves	49,459	-	-	-	49,459
Total liabilities and equity	**176,099**	**125,221**	**6,724**	**703**	**308,747**
Net foreign exchange position	**50,400**	**(50,750)**	**(17)**	**367**	**-**

(All amounts are given in BAM '000, unless otherwise stated)

3. Financial risk management (continued)

3.5. Profit margin risk

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

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

Profit margin rate of assets and liabilities

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

As at 31 December 2011	No profit margin	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total	Fixed profit margin
Assets								
Cash and balances with banks	29,805	32,601	-	-	-	-	62,406	32,601
Obligatory reserve with the Central Bank	-	20,444	-	-	-	-	20,444	20,444
Placments with other banks	-	21,046	2,932	9,548	5,850	-	39,376	39,376
Assets available for sale	57	-	-	-	-	-	57	-
Financial assets at fair value Through profit or loss	394	-	-	-	-	-	394	-
Financing of customers	11,762	128,871	9,017	51,858	-	-	201,508	49,330
Income tax prepayments	41	-	-	-	-	-	41	-
Other assets	2,535	-	-	-	-	-	2,535	-

(All amounts are given in BAM '000, unless otherwise stated)

3. Financial risk management (continued)

As at 31 December 2011	No profit margin	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total	Fixed profit margin
Non-current assets held for sale	483	-	-	-	-	-	483	-
Property and equipment	9,592	-	-	-	-	-	9,592	-
Intangible assets	285	-	-	-	-	-	285	-
Total assets	**54,954**	**202,962**	**11,949**	**61,406**	**5,850**	**-**	**337,121**	**141,751**
Liabilities and capital								
Due to banks	-	5,868	20	9,842	19,558	-	35,288	35,288
Due to customers	71,997	14,123	18,811	70,019	56,172	611	231,733	-
Borrowings	-	2	-	-	8,099	5,171	13,272	13,272
Other liabilites	3,302	-	-	-	-	-	3,302	-
Provisions for liabilities and charges	1,988	-	-	-	-	-	1,988	-
Share capital and reserves	51,538	-	-	-	-	-	51,538	-
Total liabilities and capital	**128,825**	**19,993**	**18,831**	**79,861**	**83,829**	**5,782**	**337,121**	**48,559**
Net foreign exchange provision	**(73,871)**	**182,969**	**(6,882)**	**(18,455)**	**77,979**	**5,782**	**-**	**93,191**

(All amounts are given in BAM '000, unless otherwise stated)

3. Financial risk management (continued)

As at 31 December 2010	No profit margin	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total	Fixed profit margin
Assets								
Cash and balances with banks	23,302	15,244	-	-	-	-	38,546	15,244
Obligatory reserve with the Central Bank	-	23,458	-	-	-	-	23,458	23,458
Placements with other banks	-	47,543	13,800	742	-	-	62,085	62,085
Assets available for sale	57	-	-	-	-	-	57	-
Financial assets at fair value	487	-	-	-	-	-	487	-
Financing of customers	23,995	25,992	41,856	78,386	4,199	194	174,622	49,423
Income tax prepayments	153	-	-	-	-	-	153	-
Other assets	649	-	-	-	-	-	649	-
Deffered tax assets	25	-	-	-	-	-	25	-
Property and equipment	8,550	-	-	-	-	-	8,550	-

(All amounts are given in BAM '000, unless otherwise stated)

3. Financial risk management (continued)

As at 31 December 2010	No profit margin	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total	Fixed profit margin
Intangible assets	115	-	-	-	-	-	115	-
Total assets	**57,333**	**112,237**	**55,656**	**79,128**	**4,199**	**194**	**308,747**	**150,210**
Liabilites and equity								
Due to banks	-	-	9,797	19,747	-	-	29,544	-
Due to customers	78,128	24,347	9,045	65,405	44,515	2,260	223,700	144,755
Borrowings	-	-	-	-	-	804	804	804
Other liabilties	2,620	-	-	-	-	-	2,620	-
Provisions for liabilities and charges	2,620	-	-	-	-	-	2,620	-
Share capital and reserves	49,459	-	-	-	-	-	49,459	-
Total liabilites and equtiy	**132.827**	**24.347**	**18.842**	**85.152**	**44.515**	**3.064**	**308,747**	**145,559**
Profit margin gap	**(75.494)**	**87.890**	**36.814**	**(6.024)**	**(40.316)**	**(2.870)**	**-**	**4,651**

3. Financial risk management (continued)

3.6 Liquidity risk

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

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

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

Tables below analyse the assets and liabilities of the Bank at 31 December 2011 and 2010 into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity except for equity securities available for sale which have been classified in accordance with their secondary liquidity characteristics as maturing within one month, as well as obligatory reserve.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

(All amounts are given in BAM '000, unless otherwise stated)

3. Financial risk management (continued)

As at 31 December 2011	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets						
Cash and balances with banks	62,406	-	-	-	-	62,406
Obligatory reserve with the Central Bank	20,444	-	-	-	-	20,444
Placements with other banks	21,046	2,932	9,548	5,850	-	39,376
Assets available for sale	57	-	-	-	-	57
Financial assets at fair value	394	-	-	-	-	394
Financing of customers	26,230	9,801	53,886	81,990	29,601	201,508
Income tax prepayments	41	-	-	-	-	41
Other assets	2,535	-	-	-	-	2,535
Non-current assets held for sale	482	-	-	-	-	482
Deffered tax assets	-	-	-	-	-	-
Property and equipment	-	-	-	-	9,593	9,593
Intangible assets	-	-	-	-	285	285
Total assets	**133,636**	**12,733**	**63,434**	**87,840**	**39,478**	**337,121**
Liabilities and equity						
Due to banks	5,868	20	9,842	19,558	-	35,288
Due to customers	82,309	19,521	71,188	57,862	853	231,733
Borrowings	2	-	-	- 8,099	5,171	13,271
Other liabilites	3,302	-	-	-	-	3,302
Provisions for liabilities and charges	1,988	-	-	-	-	1,988
Share capital and reserves -	-	-	-	-	51,538	51,538
Total liabilities and equity	**93,469**	**19,541**	**81,030**	**85,519**	**57,562**	**337,121**
Maturity gap	**40,167**	**(6,808)**	**(17,596)**	**2,321**	**(18,084)**	**-**

(All amounts are given in BAM '000, unless otherwise stated)

3. Financial risk management (continued)

As at 31 December 2010 Restated	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets						
Cash and balances with banks	38,546	-	-	-	-	38,546
Obligatory reserve with the Central Bank	23,458	-	-	-	-	23,458
Placements with other banks	47,543	13,800	742	-	-	62,085
Assets available for sale	57	-	-	-	-	57
Financial assets at fair value	487	-	-	-	-	487
Financing of customers	14,170	14,986	61,143	62,627	21,696	174,622
Income tax prepayments	153	-	-	-	-	153
Other assets	649	-	-	-	-	649
Deffered tax assets	-	-	25	-	-	25
Property and equipment	-	-	-	-	8,550	8,550
Intangible assets	-	-	-	-	115	115
Total assets	**125,063**	**28,786**	**61,910**	**62,627**	**30,361**	**308,747**
Liabilities and equity						
Due to banks	-	-	29,544	-	-	29,544
Due to customers	102,478	19,143	55,304	44,515	2,260	223,700
Borrowings	-	-	-	-	804	804
Other liabilites	2,620	-	-	-	-	2,620
Provisions for liabilities and charges	2,620	-	-	-	-	2,620
Share capital and reserves	-	-	- -	- -	49,459	49,459
Total liabilities and capital	**107,718**	**19,143**	**84,848**	**44,515**	**52,523**	**308,747**
Maturity gap	**17,345**	**9,643**	**(22,938)**	**18,112**	**(22,162)**	**- -**

(All amounts are given in BAM '000, unless otherwise stated)

3. Financial risk management (continued)

3.7. Capital management

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

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

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

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

	2011	2010 Restated
The Bank`s net capital in accordance with FBA regulations	53,261	53,513
Risk weighted assets and equivalents	253,341	226,187
Weighted operational risk	17,268	13,345
Total risk weighted assets and operational risk	**270,609**	**239,532**
Capital adequacy ratio as at 31 December	**19.7%**	**22.3%**

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

(All amounts are given in BAM '000, unless otherwise stated)

4. Significant 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 of financing customers

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

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

A significant proportion of the Bank's credit risk exposures represents amounts which were due to be repaid under original terms, but have been rescheduled, in certain cases with capitalized profit margin and grace periods, which makes it difficult to assess the ultimate recoverability of the rescheduled exposure and, in view of the uncertainty, increases the risk of ultimate irrecoverability. There are also certain exposures where ultimate recoverability depends on the realisable value of the underlying collateral which was assessed at the time of initiation of the financing by chartered court surveyors. In view of the undeveloped local real estate market, the recent adverse economic environment as well as possible administrative and legal difficulties, there is uncertainty whether or not and in what value and timescale the Bank will be able to enforce its rights and repossess collateral.

Taxation

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

Regulatory requirements

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

Going concern concept

The financial statements are based on the assumption that the Bank will be able to continue as a going concern for the foreseeable future.

(All amounts are given in BAM '000, unless otherwise stated)

5. Net income from financing and investments

	2011	2010
Income from operations with other Banks (Murabaha, Wakala)	2,094	1,958
Income from retail sector financing (Musharaka, Ijara)	4,959	4,397
Income from corporate sector financing (Musharaka)	9,962	8,903
Income from obligatory reserve	154	100
Income from financing and investments	*17,169*	*15,358*
Expenses from amounts due to retail customers (Musharaka)	(1,825)	(1,642)
Expenses from amounts due to corporate customers (Musharaka)	(3,856)	(3,691)
Expenses from amounts due to banks(Murabaha, Wakala)	(1,166)	(746)
Expenses from amounts due to customers and banks	*(6,847)*	*(6,079)*
Total	**10,322**	**9,279**

6. Net fee and commission income

	2011	2010
Fees from payment transactions	1,672	1,408
Guarantees and letters of credit	806	921
Commision income for stock exchange trade	273	180
Fees from foreign exchange transactions	445	235
Other banking services	1,792	2,580
Fee and commission income	*4,989*	*5,324*
Fee expense from card and other bank acitivities	479	348
Fee expense from intermediary services	233	188
Fees from foreign exchange transactions	107	123
Fees from payment transactions	92	77
Fee and commission expense	*(911)*	*(736)*
Total	**4,078**	**4,588**

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(All amounts are given in BAM '000, unless otherwise stated)

7. Net financial gain

	2011	2010
Foreign exchange gains	278	207
Losses on assets at fair value through profit or loss (Note 18)	(73)	(88)
Income from dividends	14	29
Total	**219**	**148**

8. Other operating income

	2011	2010
Grant income	-	4,215
Other income	161	56
Total	**161**	**4,271**

9. Personnel expenses

	2011	2010
Salaries	3,623	3,271
Taxes and contributions related to salaries	2,248	2,025
Other employee expenses	1,448	1,047
Total	**7,319**	**6,343**

The average number of employees for the year ended 31 December 2011 and 2010 was 220 and 195, respectively.

Personnel expenses include BAM 1,226 thousand (2010: BAM 1,096 thousand) of defined pension contributions paid into the State pension plan. Contributions are calculated as percentage of the gross salary paid.

10. Other operating expenses

	2011	2010
Professional services	834	705
Rent	634	585
Office materials and costs of maintenace	633	556
Security	459	391
Telecommunications	421	412
Marketing and advertising	276	215
Supervisory board and shareholders meetings	191	156
Energy, postage and communications	151	130
Travel and accomodation	17	16
Write-off of software	4	1,635
Other expenses	552	1,249
Total	**4,172**	**6,050**

11. Net impairment losses and provisions

	2011	2010
Financing of customers (Note 19)	(2,184)	(4,554)
Placements with banks (Note 16)	1,027	(331)
Other assets (Note 20)	(51)	(19)
Provisions for contigent liabilities and commitments (Note 27)	841	(110)
Total	**(367)**	**(5,014)**

(All amounts are given in BAM '000, unless otherwise stated)

12. Collected written-off receivables

	2011	2010
Collected written-off receivables from customer financing- principal	-	226
Collected written-off receivables from customer financing – profit margin	347	141
Other collected receivables	-	20
Total	**347**	**387**

13. Income tax

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

	2011	2010
Current tax	236	7
Total income tax expense	236	**7**

Reconciliation of the accounting profit and income tax expense

	2011	2010
Profit before tax	2,315	424
Effects of items which are not deductible:		
- non-taxable income	(14)	(86)
- non-deductible expenses	62	351
Taxable profit for the year	2.362	689
Tax losses carried forward	-	69
Tax effect of unrecognized tax losses	-	(62)
Income tax (charge)/benefit for the year	**236**	**7**

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

	2011	2010
Until 1 year	-	2,049
	-	**2,049**

14. Cash and balances with banks

	2011	2010 Restated
Current accounts with the Central Bank	32,602	15,245
Cash on hand	8,599	6,126
Current accounts with other banks	21,205	17,176
Provisions for impairment	-	(1)
Total	**62,406**	**38,546**

15. Obligatory reserve with the Central Bank

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

(All amounts are given in BAM '000, unless otherwise stated)

15. Obligatory reserve with the Central Bank (continued)

The basis for calculation excludes:

- borrowings taken from foreign entities;
- funds from government aimed at development projects. The obligatory reserve requirement represents:
- 10% or 14% of deposits and borrowings with maturity of up to one year (short-term deposits and borrowings)
- 7% of deposits and borrowings with maturity over one year (long-term deposits and borrowings) Profit margin is earned as follows:
- for deposited funds exceeding the minimum requirement the rate is based on average rates earned by Central Bank on funds invested up to one month

16. Placements with banks

	2011	2010 Restated
Placements with banks – gross	39,412	63,148
Provisions for impairment	(36)	(1,063)
Total	**39,376**	**62,085**

Placements with banks include:

- cash deposit in the amount of BAM 258 thousand (AED 600 thousand) placed with Dubai Islamic Bank as security for a guarantee issued by that bank on behalf of a customer of the Bank.
- cash deposit with Volksbank ad Banja Luka in the amount of BAM 76 thousand (BAM 74 thousand as at 31 December 2010) as collateral for the Bank's liabilities to Visa in respect of credit card operations.

As of 31 December 2011, profit rates on placements in EUR were 1.15% - 6.0% and (31 December 2010 – profit rates on placements in EUR were 0.83% - 7% p.a.).

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

	2011	2010 Restated
Balance as at 1 January	1,063	227
Net (decrease)/increase in provisions (Note 11)	(1,027)	331
Balance as at 31 December	**36**	**558**
The effect of implementation of IAS (Note 2.2)	-	505
Total	**36**	**1,063**

17. Financial assets available for sale

	2011	2010 Restated
Equity investments in related parties	10	10
Other equity investments	47	47
Total	**57**	**57**

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(All amounts are given in BAM '000, unless otherwise stated)

Equity investements that are not quoted on the Stock Exchange are as follows:

Company	Activity	% of ownership	Country
International Islamic rating agency	Rating agency for Islamic Institutions	0.37	Kingdom of Bahrain
Registry of Securities of Federation of Bosnia & Herzegovina	Registration, safekeeping and maintenance of data of securities	0.687	Bosnia & Herzegovina
BBI Leasing i Real Estate d.o.o. Sarajevo	Leasing	0.03	Bosnia & Herzegovina

18. Financial assets at fair value through profit and loss

	2011	2010 Restated
Listed equity securities		
BH Telecom d.d. Sarajevo	86	93
Al Salam Bank – Bahrain B.S.C.	84	129
JP Elektroprivreda HZ HB d.d. Mostar	61	58
Bosnalijek d.d. Sarajevo	40	24
Ingram d.o.o. Srebrenik	20	23
Energoinvest d.d. Sarajevo	19	25
OIF Ilirika global	19	-
GP ŽGP Sarajevo	19	14
Klas d.d. Sarajevo	17	18
JP Elektroprivreda BH d.d. Sarajevo	11	51
Other	18	52
Total	**394**	**487**

The Bank incurred a net fair value loss on this portfolio of 73 thousand BAM (2010: net loss of 88 thousand BAM) Note 7.

19. Financing of customers

	2011	2010 Restated
Corporate		
- short term	44,651	56,597
- long term	94,930	67,878
	139,581	124,475
Retail		
- short term	7,614	8,193
- long term	63,806	49,369
	71,420	57,562
Total gross financing of customers	***211,001***	***182,037***
Impairment allowance	(9,493)	(7,415)
Net financing of customers	**201,508**	**174,622**

Financing of custormers is mostly related to customers in Bosnia & Herzegovina.

(All amounts are given in BAM '000, unless otherwise stated)

19. Financing of customers (continued)

The movements in impairment allowances of financing of customers are summarized as follows:

	2011	2010 Restated
Balance as at 1st of January	7,415	4,152
Net increase in provisions (Note 11)	2,184	4,554
Write-offs	(106)	(1,181)
Balance as at 31 December	**9,493**	**7,525**
The effect of off balance sheet transfer	-	1,876
Subtotal	**9,493**	**9,401**
The effect of implementation of IAS (Note 2.2.)	-	(1,986)
Balance as at 31 December	**9,493**	**7,415**

Profit rates for financing of customers, given as at 31 December 2011 and 2010 are summarized as follows

	2011		2010	
	BAM	Annual profit rate	BAM	Annual profit rate
Companies	139,581	3% - 12%	124.475	2.96% -14.67%
Citizens	71,420	3% - 15%	57.562	3% - 15%
Total	**211,001**		**182,037**	

20. Other assets

	2011	2010 Restated
Receivables from other banks in relation to card operations	75	52
Fee receivables	223	282
Prepaid expenses	134	91
Material, tools and consumables	56	28
Receivables from State bodies	1,850	30
Other assets	287	205
Subtotal	*2,625*	688
Provisions for impairment	(90)	(39)
Total	**2,535**	**649**

Movement in provision for impairment of other assets is as follows:

	2011	2010 Restated
Balance as at 1st of January	**39**	**103**
Net increase of provisions (Note 11)	51	19
Write-offs	-	(48)
Subtotal	**90**	**74**
The effect of offbalance sheet transfer	-	118
Subtotal	**-**	**192**
The effect of implementation of IAS (Note 2.2.)	-	(153)
Balance as at 31 December	**90**	**39**

(All amounts are given in BAM '000, unless otherwise stated)

20.a Non-current assets held for sale

	2011	2010 Restated
Buildings	482	-

The Bank collected collaterals from debtors for receivables form financing of customers in 2011 in the amount of 482 thousands BAM. Based on Banking Agency Decision this collaterals should be sold in period of one year from collection date.

21. Property and equipment

	Land and buildings	Computers	Furniture and equipment	Construction in progress	Investment in others property	Total
Purchase Value						
Balance at 1 January 2010	**5,493**	**844**	**2,811**	**514**	**687**	**10,349**
Additions	-	-	-	890		890
Transfers	48	762	518	(793)	591	1,126
Disposals	-	(5)	(88)	-	(16)	(109)
Balance at 31 December 2010 Restated	**5,541**	**1,601**	**3,241**	**611**	**1,262**	**12,256**
Balance at 1 January 2011	*5,541*	*1,601*	*3,241*	*611*	*1,262*	*12,256*
Additions	-	-	64	1,765	-	1,829
Transfers	787	310	539	(1,678)	42	-
Balance at 31 December 2011	**6,328**	**1,911**	**3,844**	**698**	**1,304**	**14,085**

(All amounts are given in BAM '000, unless otherwise stated)

21. Property and equipment (continued)

	Land and buildings	Computers	Furniture and equipment	Construction in progress	Investment in others property	Total
Accumulated depreciation						
Balance at 1 January 2010	**248**	**297**	**1,041**	**-**	**319**	**1,905**
Depreciation charge	71	187	390	-	136	784
Disposals	-	(5)	(88)	-	(16)	(109)
Transfers	-	316	258	-	552	1,126
Balance at 31 December 2010	**319**	**795**	**1,601**	**-**	**991**	**3,706**
Balance at 1 January 2011	*319*	*795*	*1,601*	-	*991*	*3,706*
Depreciation charge	72	278	389	-	136	875
Disposals	-	(73)	(16)	-	-	(89)
Balance at 31 December 2011	**391**	**1,000**	**1,974**	**-**	**1,127**	**4,492**
Net book value 31 December 2011	**5,937**	**911**	**1,870**	**698**	**177**	**9,593**
Net book value 31 December 2010 Restated	**5,222**	**806**	**1,640**	**611**	**271**	**8,550**

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

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(All amounts are given in BAM '000, unless otherwise stated)

22. Intangible assets

	Software and licences	Assets in preparation	Total
Cost			
Balance at 1 January 2010	**279**	**1.627**	**1.906**
Additions	-	38	38
Transfers	522	(30)	492
Disposals, write offs	(2)	(1.635)	(1.637)
Balance at 31 December 2010	**799**	**-**	**799**
1. January 2011.	799	-	799
Additions	57	192	249
Transfers	114	(114)	-
Disposals	-	-	-
Balance at 31 December 2011	**970**	**78**	**1,048**
Accumulated amortization			
Balance at 1 January 2010	**136**	**-**	**136**
Amortisation charge	58	-	58
Disposals	(2)	-	(2)
Transfers	**492**	**-**	**492**
Balance at 31 December 2010	**684**	**-**	**684**
1 January 2011.	684	-	684
Amortisation charge	79	-	79
Disposals	-	-	-
Balance at 31 December 2011	**763**	**-**	**763**
Balance at 31 December 2011	**207**	**78**	**285**
Balance at 31 December 2010	**115**	**-**	**115**

Assets in the course of production as at 31 December 2011 mainly represent addition of new licenced software bought from Cardinfo BDS d.o.o. Sarajevo.

23. Due to customers

	2011	2010 Restated
Companies:		
Current/settlement accounts	51,809	71,906
Term deposits	101,186	87,161
Total Companies	**152,995**	**159,067**
Citizens		
Current/settlement accounts	12,303	11,200
Term deposits	66,435	53,433
Total Citizens	**78,738**	**64,633**
Total	**223,700**	**223,700**

The average interest rate charged on term deposits in 2011 and 2010 was 4.07% and 4.55% respectively. Accrued liabilities for the interest rate on 31. december 2011 and 2010 was 914 thousand BAM and 815 thousand BAM respectively.

(All amounts are given in BAM '000, unless otherwise stated)

24. Due to other banks

	2011	2010 Restated
Islamic Development Bank, Saudi Arabia	19,621	19,747
Abu Dhabi Islamic Bank, UAE	9,799	9,797
Asya Katalim Bankasi A.S.	5,868	-
Total	**35,288**	**29,544**

Islamic Development Bank, Jeddah, Saudi Arabia deposited an amount of EUR 10 million. The deposit carries an annual interest rate of 6 month LIBOR for EUR plus 1.75 % for the first 1.5 years of the deposit, and 6 month LIBOR for EUR plus 2 % for the rest of the period. Maturity date of the deposit is 26 May 2014.
Accrued profit margin expense as of 31 December 2011 and 2010 amounted to 552 thousandBAM and 471 thousand BAM, respectively.

A Master Wakala Agreement was signed between the Bank and Abu Dhabi Islamic Bank on 1 February 2005, in the amount of EUR 5 million. The final maturity date of the deposits is 15 June 2012 with profit rate of three months EURIBOR +2.9% p.a. Accrued profit margin expenses as of 31 December 2011 and 2010 amounted 418 thousand BAM and 274 thousand BAM, respectively.

The deposit of Asya Katlim Bankasi A.S. has been used several times in 2011 at a cost of 2.85 % and 2.95%. Total paid profit margin from the respective bank amounted to 19 thousand BAM on 31 December 2011.

25. Borrowings

	2011	2010 Restated
Ministry of finance Federation of Bosnia and Herzegovina (IFAD)	984	804
Ministry of finance Federation of Bosnia and Herzegovina (Foundation ODRAZ)	12,288	-
Total	**13,272**	**804**

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

The Bank, the Federal Ministry of Finance, and Foundation for Sustainable Development (World Bank) signed the contract in October 2010. The project funds development of SMEs. The Bank repays principal quarterly in accordance with amortization plans of final users of funds. The maximum duration is 10 years. The last deadline for use of these funds is July 2014. That profit margin is EURO LIBOR +1%.

(All amounts are given in BAM '000, unless otherwise stated)

26. Other liabilities

	2011	2010 Restated
Unallocated payments received	785	558
Liabilities toward shareholders of liquidated ICB Bank, FBiH	354	352
Liabilities to suppliers	376	284
Accrued expenses	222	254
Donations	203	213
Managed funds	43	55
Deferred income from fees	140	114
Liability for contract cancelation penalties (Mysis)	323	313
Other liabilities	856	477
Total	**3,302**	**2,620**

Funds managed by the Bank on behalf of individuals, trusts and other institution.

Liabilities	2011	2010 Restated
Liabilities to Government – Ministry of Bosnian Homeland War veterans (FBiH)	2,555	2,796
Foundation Al Mactoum	395	390
Total	**2,950**	**3,186**
Assets		
Retail-placed funds	2,907	3,131
Total	**2,907**	**3,131**
Difference in commission activities	**43**	**55**

The Bank does not bear risk for these placements, and charges a fee of 1%.

27. Provisions for liabilities and charges

	2011	2010 Restated
Provisions for off-balance liabilities	1,669	2,510
Provisions for severance and unused vacation	319	110
Total	**1,988**	**2,620**

(All amounts are given in BAM '000, unless otherwise stated)

27. Provisions for liabilities and charges (continued)

Movement in provisions for liabilities and charges:

	Total	Provisions for off-balance sheet liabilities	Provisions for severance payments and unused holidays
Balance as at 1 January 2010	1,244	1,164	80
Impairment allowances (Note 11)	140	110	30
Disposals	(15)	(15)	-
Subtotal	**1,369**	**1,259**	**110**
The effect of implementation of IAS (Note 2.2.)	1,251	1,251	-
Balance as at 1 January 2011 restated	2,620	2,510	110
Additional provisions approved	209	-	209
Impairment allowances (Note 11)	(841)	(841)	-
Balance as at 31. decembar 2011.	**1,988**	**1,669**	**319**

Impairment losses for off-balance sheet exposure are recognized through net impairment losses and provisions in the statement of comprehensive income (note 11).

(All amounts are given in BAM '000, unless otherwise stated)

28. Share capital

The Bank`s ownership structure is as follows:

	31 December 2011			31 December 2010 Restated		
	Number of shares	Amount BAM	%	Number of shares	Amount BAM	%
Shareholders						
Islamic Development Bank, Saudi Arabia	269,927	22,755	45,46	269,927	22,755	45,46
Abu Dhabi Islamic Bank, UAE	161,948	13,652	27,27	161,948	13,652	27,27
Dubai Islamic Bank, UAE	161,948	13,652	27,27	161,948	13,652	27,27
Total	**593,823**	**50,059**	**100,00**	**593,823**	**50,059**	**100,00**

29. Earnings per share

The Bank is calculating and disclosing earning per share in accordance with IAS 33. Basic earnings per share are calculated by dividing net profit attributable to the ordinary shareholders by the weighted average number of ordinary shares for the period. The Bank has no dilutive potential ordinary shares such as convertible debt and share options. Therefore, the Bank dilutive EPS and basic EPS are the same.

	2011	2010 Restated
Net profit after tax	2,079	417
Weighted average number of shares in issue	593,823	593,823
Basic/diluted earnings per share (in BAM)	3.50	0.70

(All amounts are given in BAM '000, unless otherwise stated)

30. Commitments and contigencies

	2011	2010 Restated
Performance guarantees	32,348	32,049
Payment guarantees	6,308	7,011
Unused credit lines	12,801	12,899
Letters of credit	2,870	4,372
Total	**54,327**	**56,331**

Operating lease commitments

Where the Bank is the lessee the future minimum lease payments under non-cancellable operating leases is included in the table below

	No later than 1 year	1-5 years	Over 5 years	Total
As at 31 December 2011				
Financing of customer commitments	12,801	-	-	**12,801**
Financial guarentees and letters of credit	26,115	15,400	11	**41,526**
Operating lease commitments	675	2,238	1,582	**4,495**
Total	**39,591**	**17,638**	**1,593**	**58,822**
As at 31 December 2010				
Financing of customer commitments	12,899	-	-	**12,899**
Financial guarentees and letters of credit	30,872	12,551	9	**43,432**
Operatinf lease commitments	569	1,887	72	**2,528**
Total	**44,340**	**14,438**	**81**	**58,859**

(All amounts are given in BAM '000, unless otherwise stated)

31 Related-party transactions

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

Transactions with related parties is a part of the daily operations of the Bank.

Transactions with other related parties can be summarized as follows:

	2011		2010 Restated	
	Receivables	Payables	Receivables	Payables
Islamic Development Bank, Saudi Arabia - Shareholder	7	19,621	-	19,747
Dubai Islamic Bank, UAE - Shareholder	132		-	-
Abu Dhabi Islamic Bank, UAE - Shareholder	1	9,799	-	9,797
BBI Leasing and Real Estate d.o.o. - other	2,733	2,061	1,920	5,927
Total	**2,873**	**31,481**	**1,920**	**35,471**

	2011		2010	
	Income	Expenses	Income	Expenses
Islamic Development Bank, Saudi Arabia - Shareholder	-	553	-	472
Dubai Islamic Bank, UAE - Shareholder	-		6	-
Abu Dhabi Islamic Bank, UAE - Shareholder	-	418	-	274
BBI Leasing and Real Estate d.o.o. - other	84	121	65	287
Total	**84**	**1,092**	**71**	**1,033**

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(All amounts are given in BAM '000, unless otherwise stated)

31 Related-party transactions (continued)

Directors` and executives` remuneration

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

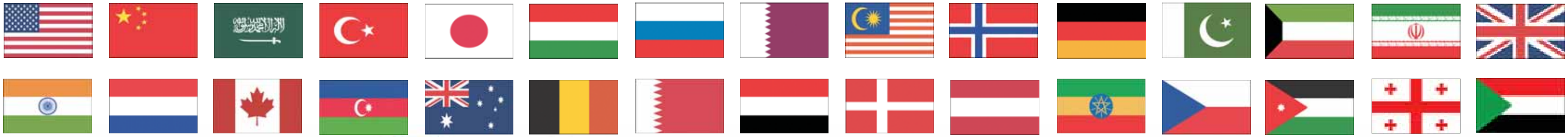
	2011	2010
Salaries	471	408
Taxes and contributins on salaries and other income	301	249
Additional bonuses	40	22
Total	**812**	**679**

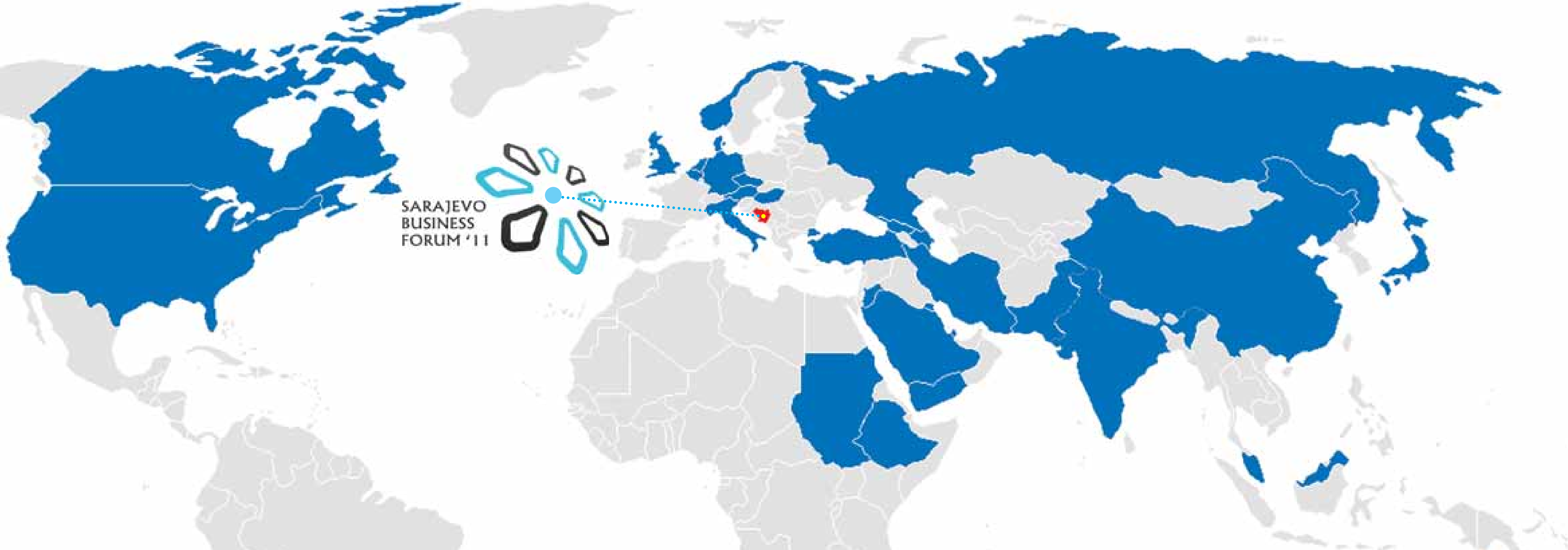
Compensation of the Supervisory Board were paid 76 thousand EUR (2010: 74 thousand EUR) and consists the gross amount of the compensation.

32. Events after the reporting period

There were no material events that occurred after the reporting date until these financial statement requiring adjustment or disclosure in the financial statements.

OVER 300 INVESTORS FROM 30 COUNTRIES





Investors who attended the Sarajevo Business Forum 2011 came from:

Australia, Austria, Azerbaijan, Bahrain, Belgium, Canada, China, Check Republic, Denmark, Ethiopia, Georgia, Netherlands, India, Iran, Japan, Jordan, Yemen, Qatar, Kuwait, Germany, Hungary, Malaysia, Norway, Pakistan, Russia, Sudan, USA, Saudi Arabia, Turkey, EAE & United Kingdom

SARAJEVO BUSINESS FORUM '11

SARAJEVO BUSINESS FORUM

ENERGY | INFRASTRUCTURE | AGRICULTURE | WOOD INDUSTRY | EDUCATION | FINANCE INDUSTRY | TOURISM | CONSTRUCTION

PROJECTS PRESENTED AT SBF 2011

153 projects, valued at 14.7 billion Euros

TOURISM:	46 projects, valued 528 million Euros
INFRASTRUCTURE:	31 projects, valued 8.98 billion Euros
ENERGY:	30 projects, valued 4.83 billion Euros
AGRICULTURE:	26 projects, valued 339 million Euros
WOOD INDUSTRY:	9 projects, valued 18.56 million Euros
FINANCIAL INDUSTRY:	8 projects, valued 33 million Euros
EDUCATION:	3 projects, valued 10.18 million Euros

EDUCATION *'We teach, we train and we compete'*

FINANCIAL SECTOR *B&H has excellent human resource potential for services*

AGRICULTURE *Half of Bosnian territor for agricultural produ*

WOOD INDUSTRY *Unlimited potential for growth*

TOURISM *Real potential for growth*

CONSTRUCTION AND BUILDING INDUSTRY *United in quest for development*

INFRUSTRUCTURE AND ENERGY *Energy could pull us out of the crisis*

Business has overcome regional obstacles

"Sarajevo Business Forum 2011", was held in Sarajevo from 6th to 8th April., 2011. During the 3-day Conference that was attended by more than 300 investors from 29 countries there was a lot of concrete deals and new investments were announced for the entire region. Bosna Bank International (BBI) and its founder and a major shareholder Islamic Development Bank (IDB) have, for the second time, offered the citizens of Bosnia and Herzegovina and the region a reason for the belief in a better future.

After preparations which took months and which included the training of companies from the region to prepare projects for investors tailored according to the highest international standards, Sarajevo Business Forum was held from 6th to 8th April., 2011.

At this year's Forum 153 projects projects from B&H and regional countries were presented to investors. Projects were divided into 8 industrial sectors. Investors who attended the Forum came from countries as diverse as, China, Malaysia, Australia, Gulf region, Norway, etc. Total value of projects was 14.7 billion Euros. Projects ranged from tourism, energy, infrastructure, wood industry, agriculture, finance industry, education and construction.

'In good place a good beginning', was the cover article in the daily newspaper Oslobodjenje, the special print media partner of the Forum. The article referred to the first day of the Conference when the Plenary sessions were convened at the Parliament House of B&H.

The Plenary session was opened by Amer Bukvic, CEO of Bosna Bank International on behalf of the Organizing Committee, Khaled M.N Al-Aboodi, representative of the IDB Group and Bakir Izetbegovć, Member of the Presidency of B&H and co-patron, of the Forum.

First plenary session, discussed the 'Economic Development and regional cooperation'. Speakers of the session were: Ali Babacan, Deputy Prime Minister of the Republic of Turkey, Sheikh Saleh Abdullah Kamel, Chairman of the Islamic Chamber of Commerce and Industry, Dr. Haris Silajdzic, Former Member of the Presidency of B&H and the co-founder of the Forum. Vera Kobalia, Minister for Economy and Sustainable Development of the Republic of Georgia, Dr. Sulejman Ugljanin, Minister without portfolio in the Government of the Republic of Serbia, M. Rifat Hisarciklioglu, Chairman of the Union of Chambers of Commerce and Commodity Exchanges from Turkey (TOBB) and Deputy Chairman Eurochambers, Dr. Kemal Kozaric, Governor of the Central Bank of B&H, H.E. Sven Alkalaj, Minister of Foreign Affairs of B&H, State Secretary and special representative of the Ministry of Economy of the Republic of Croatia.

The 2nd part of the Plenary session discussed the 'International Perspectives for Investment in Southeast Europe'. Speakers in this part of the Forum were: Nermin Nikšic, Prime Minister of the Federation of B&H, Dato Seri Muhamed Ali Rustam, Chief Minister of Malacca (Malaysia), Murat Yalcintas, President of the Istanbul Chamber of Commerce, Milan Cuc, Resident Representative of IMF for B&H, Giulio Moreno, Director of EBRD, Kamil Gokhan Bozkurt, CEO of the Turkish Telecom, Dr. Takehiro Togo, President of ECPD and Advisor to Mitsui Strategic Insitute in Japan and Lorraine Hariton, Special Representative of the US Department of State for Commerce (USA).

The 2nd and 3rd day of the Forum offered opportunity for presentation of regional investment climates, for presentation of specific projects and for bilateral 'business to business' discussions, as well as for the presentation of 'successful stories' featuring ASA Group, Agrana Brcko and Bristol hotel in Sarajevo.

B&H is an outstanding country for investments and this is the right time for investing, was the message repeatedly heard on the first day. On the second day of the Forum good news followed about the announcement of a new investments in B&H and the region. Room for bilateral meetings was filled with businessmen and investors. Companies offering projects and interested investors were holding one meeting after the other throughout the two days of the conference.

'Regional approach to foreign investments proved to be a good move by the organizers, given the fact that markets of the countries which constituted the former Republic of Yugoslavia are too small to be able to achieve significant development on their own. Regional approach is therefore the best way to achieve economic progress.' Bakir Izetbegovic, Member of the Presidency of B&H and the co-patron of SBF 2011 declared:

"Our aim is to achieve cooperation with countries in the region. We believe we can best achieve this by strengthening our economic relations".

Jedinstvena bosanska banka

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