Annual Report 2012

Bosna Bank International

SARAJEVO- THE ECONOMIC CENTER OF THE REGION

A thousand guests, 650 foreign and local businessmen, 250 representatives of the media, more than 100 officials, 138 projects in the value of EUR 8,5 billion, 190 business to business meetings, 30 participant countries, 10 grand agreements, a thousand positive impressions; this is only a short summary of Sarajevo Business Forum 2012 that was held in Sarajevo from 16th to 18th May 2012.

BBI, SOCIALLY RESPONSIBLE BANK

SARAJEVO BUSINESS FORUM CONTRIBUTING TO SARAJEVO BECOMING THE ECONOMIC CENTER OF THE REGION

A thousand guests, 650 foreign and local businessmen, 250 representatives of the media, more than 100 officials, 138 projects in the value of EUR 8,5 billion, 190 business to business meetings, 30 participant countries, 10 grand agreements, a thousand positive impressions; this is only a short summary of Sarajevo Business Forum 2012 that was held in Sarajevo from 16th to 18th May 2012.

For days before the start of the largest investment conference of South East Europe, the third Sarajevo Business Forum, media houses wrote about the arrival of foreign investors and preparation of local projects. The organizers of the largest business event in the South East Europe region, Bosna Bank International (BBI) and the Islamic Development Bank (IDB), have been preparing the Forum for months. „We want to bring prosperity and faith in better tomorrow to the citizens of B&H and the region," said the CEO of BBI Bank Amer Bukvić, addressing the numerous guests, investors, businessmen and senior officials at the opening ceremony in the B&H Parliament building.

"There is tremendous interest in B&H and the region in the world, evidenced by the fact that investors from Western Europe, North America, the Middle East, China and Japan came to this Forum. Their presence here is testimony that the SBF offers numerous opportunities for investors", said the President of Islamic Development Bank, Dr. Ahmad Mohamed Ali.

"If you have the courage to invest in B&H, and if you make an effort you will see that B&H is a country of great opportunities," said H.E. Bakir Izetbegovic, a member of the B&H Presidency and the patron of the Sarajevo Business Forum 2012 at the opening ceremony.

Sarajevo Business Forum hosted many prominent guests besides above mentioned also H.E. Ali Babacan, Deputy Prime Minister of Turkey, H.H. Sheikh Ahmad bin Jassim Al Thani, Director General of Al Jazeera Network, H.E. Mohammed Ibrahim Al Shaibani, CEO of Investment Corporation of Dubai and many others.

During second and third day of the Forum, investors from around the world were presented with the projects from tourism, agriculture, infrastructure, construction, education, energy, finance and industry .More than 190 business-to-business (B2B) meetings took place and many investors have extended their stay in the country to visit companies and places in which they are interested to invest.

Besides ten grand agreements signed on official ceremonies during the three days of Sarajevo Business Forum, many agreements have been achieved. The direct contactsand meetings of regional entrepreneurs and foreign investors were held during the whole three days and also in parallel to the panel discussions of the Forum.Three official dinners hosted by H.E. Bakir Izetbegovic, member of the Presidency of B&H, Mr. Alija Behmen, Mayor of City of Sarajevo, and FENIKS construction consortium, sponsor of the Forum, gave special opportunity for participants to connect and discuss business opportunities.

Sarajevo Business Forum is one of varied BBI engagements as a socially responsible bank which attracted significant interest by investors and public alike. SBF became the synonym for attracting foreign investments and development of our society which BBI is particularly proud of.

TURKISH FINANCIAL LINE

Mr. Amer Bukvić, CEO of Bosna Bank International, Mr. Huseyin Aydin, Director General of Ziraat Bank Turkey, and Mr. Ali Riza Akbas the Director General of the Turkish Ziraat Bank Bosnia during Sarajevo Business Forum 2012 have signed a Memorandum of Understanding on establishing financial line in the amount of EUR 100 million for Bosnia and Herzegovina

CONTENTS

STATEMENT BY THE CHAIRMAN OF THE GENERAL ASSEMBLY OF THE BANK OF BOSNA BANK INTERNATIONAL (BBI)

Chairman of the General Assembly of BBI

It gives me great pleasure to present the Bosna Bank International financial statements for 2012 to all stakeholders in Bosnia Herzegovina and abroad.

In spite of many challenges in global and local economies and financial markets, 2012 was another successful business year of growth and further strengthening for BBI. The Bank has made a substantial progress in recent years as a result of its adherence to the healthy principles of Islamic financing, support from its Shareholders and dedication of the Bank's staff.

Since the beginning of its operations Bosna Bank International has been providing support to the economy of Bosnia and Herzegovina. The Bank will continue to exert utmost efforts in the future to realize its overall vision of fostering economic development and social progress in Bosnia and Herzegovina.

I am particularly pleased to note that BBI continues to win the trust and confidence of the market and business community and thereby remains a well recognizable and distinguished corporate citizen in Bosnia and Herzegovina. As reflected by its operating results, the Bank has maintained the path of expansion and growth across all business segments. In addition, BBI has continued its corporate social responsibility activities by serving communities and providing education opportunities through its scholarship scheme. Contributing to higher education will continue to be one of the priorities in the future as well.

As part of the corporate social responsibility program, BBI, in cooperation with its shareholders, successfully organized Sarajevo Business Forum (SBF) for the third time. The Forum continues to be a solid platform for business networking and promotion of investment opportunities in the Southeast Europe. In 2012, SBF hosted more than 1,000 participants which was the highest attendance since its inception. This proves that SBF is already perceived as an important bridge between our partners from the Southeast Europe and investors from the Islamic Development Bank's member countries, and a leading force for economic development and entrepreneurship.

Bosna Bank International has been operating in Bosnia and Herzegovina for twelve years now, enhancing its scope of Islamic banking operations and proving that Islamic banking principles are ethical, universal and serving the common good of humanity.

The BBI Shareholders are pleased to express their appreciation to the management and the staff of BBI for the accomplished results as well as to Bosnia and Herzegovina's authorities and the public for their generous support to the Bank.

The BBI Shareholders are committed to continue their strong backing of the Bank with the aim of contributing to the socio-economic development of Bosnia and Herzegovina. I am confident that, with the help of the Almighty and support of all shareholders, the Bank will further increase its potential and remain the Islamic banking industry hub in Southeast Europe.

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, it is my pleasure to present you the results and business achievements of Bosna Bank International in 2012.

In this year BBI continued to grow in all of its business segments. Additionally, even though the economic slowdown in the country and the Southeast Europe region posed by the global financial crisis largely influenced creation of new business opportunities, BBI supported most prospective projects and invested efforts in attracting foreign direct investments to Bosnia and Herzegovina through the annual Sarajevo Business Forum. The Bank focused on supporting and attracting investments into major industrial sectors such as agriculture, tourism, hydro energy, education and research and development.

In comparison with the previous year, BBI recorded significant growth in all its business lines. Total assets grew by 27% supported by a 33% growth in financing. The most important driver of the 19% deposits growth was the retail deposits which grew by 38%. Total revenues increased by 17% and net profit by 26%. Even though BBI increased its financing volumes in times of an economic slowdown, its non-performing loans continue to be less than the market average. These impressive results came on the back of prudent business decisions along with stringent risk management practices. The Bank also continued its branch expansion and it now has 20 branches throughout the country.

The banking system in Bosnia and Herzegovina was rather well prepared and responded adequately to the negative effects of the global financial downturn. The fundamentals of the banking sector remained strong and stable in terms of liquidity and solvency. The positive trend is shown in a 2% increase in banking sector assets.

By developing and utilizing its internal strengths, the Bank continued to support its clients. BBI also facilitated corporate clients in growing their business outside the country. By hosting and fostering relationships between local businessmen and business partners from emerging economies, BBI has been effectively recognized as an engine of Bosnia's external business development. The Bank's educational arm - BBI Academy, contributed towards enhancement of the overall business effectiveness as it focused on specialization of Bank's staff as well as building public awareness about the core values and benefits of Islamic banking. BBI Bank is very proud of the fact that it awarded more than 550 scholarships to university students with lower household income, particularly those who demonstrated interest in research and innovation in the Islamic banking and finance industry.

BBI has left a strong impact in the market by delivering value for its stakeholders and has become a recognizable brand not only in Bosnia and Herzegovina but also internationally. The level of staff engagement has augmented and our approach to corporate social responsibility gained increasing recognition.

I would like to take this opportunity to thank BBI's Shareholders, Board Members, the management of the Bank and all its staff for the extraordinary efforts put into making BBI a success, as well as our clients for their continued support.

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 express my deep gratitude to all our valued clients, business partners and associatesfor staying loyal and committed partners of BBI in previous period. With your support and loyalty, in the last year, BBI has positively dealt, achieved good business results and has increased the market participation in almost all segments of operations. Due to extraordinary efforts of our management team and a hard work on the part of our diligent employees across various sectors, BBI continued growth in all of its business segments. Respected clients, business partners and associates, it is therefore my great pleasure to briefly present to you the results of BBI in the previous year in comparison to the year before (2011):

- growth of total assets by 27%
- growth of total financings by 33%with retail financings growth of 30% and corporate financings growth of 34%
- increase of total deposits by 21% with retail deposits growth of 38% and corporate deposits growth of 13%
- increase of total revenues by 17%
- increase of net profit by 26%.

Being committed to contributing to the socio-economic development of Bosnia and Herzegovina, BBI continued supporting the economy of the Country and put even more effort in attracting foreign direct investments by organizing 3rd Sarajevo Business Forum but also during regular activities of its VIP Business Club. In 2012, Sarajevo Business Forum confirmed its role of being one of the main linking point of potential investors coming from different parts of the world and local – regional businessmen ready and capable of obtaining investments into concrete projects. The Forum hosted more than 1,000 participants and supported Sarajevo in getting closer to becoming the economic center of the region.

Besides Sarajevo Business Forum, BBI focused its social responsibility projects also through providing scholarships for students. While believing that the prosperity of the Country lays in educated population, BBI with the support of Sheikh Saleh Kamel Foundation, Abu Dhabi Finance House and from its own sources, distributed more than 650 scholarships amounting to approx. EUR 500 thousand. We are dedicated to continue the trend with the noble support from our partners.

BBI Academy conducted 28 internal and 11 external seminars with 220 employees attending it, gaining valuable knowledge and broadening perspectives.

Last year, Bosna Bank International has been elected for the second consecutive year as “the Most Desirable Employer in Bosnia and Herzegovina” in the financial – insurance sector. The survey was conducted by local web portal over the period of three monthsand which involved 8.185 respondents from all parts of Bosnia and Herzegovina. BBI was again rewarded for its constant improvement, hard work, positive contribution to the State’s economy and business environment and socially responsible projects.

We are positive that the growth trend will continue in 2013, 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.

AMER BUKVIĆ

BBI MANAGEMENT

MISSION:

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

Amer Bukvić

Director General

Vildana Škaljić

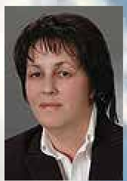
Executive Director

Emir Čehajić

Executive Director

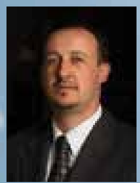
Mirza Spahić

Director of Legal Division



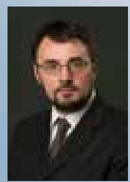
Ganiba Adilović

Acting Director of Strategic Planning and Financial Control Division



Muhamed Prlja

Director of Retail Banking Division

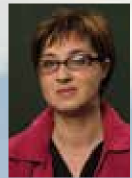


Semir Ibrahimović

Director of IT Division

Salih Purišević

Secretary General of the Bank

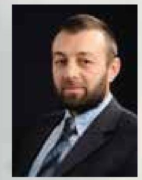


Emina Šišić

Director of Operations Division

Mirsada Čengić

Director of Treasury and FI Division

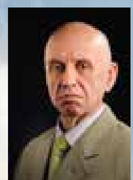


Samir Suljević

Director of HR and Administration Division

Nusreta Pidro

Director of Credit and Market Risk Management Division



Enver Redžović

Chief Internal Auditor

Azra Čolić

Director of Corporate Banking

REPORT OF THE MANAGEMENT BOARD

The Management Board has pleasure in submitting its report together with the audited financial statements for the year ended 31 December 2012.

Review of operations

The result for the year ended 31 December 2012 of the Bank is set out in the income statement on page 14.

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

During the course of 2012 and up to the date of this report, the Supervisory Board comprised:

Supervisory Board:

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

Audit Board:

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

Sharia'h Board:

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

Management Board:

As of 31 December 2012 the Management Board comprised director and 2 executive directors. The persons who served as executive directors during the year and up to the date of this report are as follows:

Amer Bukvić	Director
Vildana Škaljić	Executive director
Emir Čehajić	Executive director

On behalf of the Management Board

Amer Bukvić
Director general/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 13 to 86 were authorised by the Management Board on 16 May 2013 for issue to the Supervisory Board and are signed below to signify this.

Signed on behalf of the Management Board:

Amer Bukvić	Vildana Škaljić
Director General/CEO	Executive Director

Bosna Bank International d.d.
TrgDjeceSarajeva bb
71000 Sarajevo
Bosnia and Herzegovina

16 May 2013

INDEPENDENT AUDITORS' REPORT

To the shareholders of Bosna Bank International d.d.

We have audited the accompanying financial statements of Bosna Bank International d.d., Sarajevo („the Bank“) which comprise the statement of financial position as of 31 December 2012 and the statement of comprehensive income, changes in equity and cash flow for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation 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 assurance that the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of 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 opinion on 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 for our 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 2012, 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 Federal Banking Agency's Decisions.

PricewaterhouseCoopers d.o.o. Sarajevo

Alida Selimović, Certified auditor

„PRICEWATERHOUSECOOPERS D.O.O.“ SARAJEVO

Sarajevo, 16 May 2013

STATEMENT OF COMPREHENSIVE INCOME

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

	Note	2012	2011
Income from operations with clients (Murabaha, Wakala) and from financing retail and corporate sector (Musharaka and Ijara)	5	20,149	17,169
Expenses in respect of amounts due to customers and to banks (Wakala)	5	(7,604)	(6,847)
Net income from financing and investments		**12,545**	**10,322**
Net impairment losses and provisions	10	(1,602)	(367)
Net interest income after provision for impairments		**10,943**	**9,955**
Fee and commission income	6	5,755	4,989
Fee and commission expense	6	(965)	(911)
Net financial gain	7	410	219
Other operating income		306	161
Personnel expenses	8	(7,940)	(7,319)
Depeciation expenses	20, 21	(1,168)	(954)
Other operating expenses	9	(4,501)	(4,172)
Collected written-off receivables	11	83	347
Profit before income taxes		**2,923**	**2,315**
Income tax	12	(299)	(236)
Net profit for the year		**2,624**	**2,079**
Basic/diluted earnings per share (in BAM)		**4,42**	**3,5**

Notes on pages 20 to 83 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

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

	Note	2012	2011
ASSETS			
Cash and balances with banks	13	91,805	62,406
Cash and the balances with the Central Bank of Bosnia and Herzegovina	14	22,333	20,444
Placements to banks	15	33,395	39,376
Financial assets available for sale	16	45	57
Financial assets at fair value through profit or loss	17	419	394
Financing of customers	18	267,837	201,508
Other assets	19	2,008	3,058
Property and equipment	20	8,790	9,593
Intangible assets	21	920	285
TOTAL ASSETS		**427,552**	**337,121**
LIABILITIES			
Due to banks	23	35,277	35,288
Due to customers	22	281,413	231,733
Borrowings	24	52,630	13,272
Other liabilities	25	3,071	3,302
Provisions for liabilities and charges	26	999	1,988
TOTAL LIABILITIES		**373,390**	**285,583**

Notes on pages 20 to 83 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

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

SHAREHOLDERS' EQUITY			
Share capital	27	50,059	50,059
Statutory reserves		713	405
Accumulated losses / gains		3,390	1,074
TOTAL EQUITY		**54,162**	**51,538**
TOTAL EQUITY AND LIABILITIES		**427,552**	**337,121**

Notes on pages 7 to 83 form an integral part of these financial statements.

Board of Directors of the Bank has authoriszed these financial statements on 16 May 2013:

Director General/CEO, Amer Bukvić

Executive Director, Vildana Škaljić

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 2010	**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**
Balance as at 31 December 2011	**50,059**	**405**	**1,074**	**-**	**51,538**
Allocation of the profit from 2011	-	308	(308)	-	-
Profit for the year	-	-	2,624	-	2,624
Balance as at 31 December 2012	**50,059**	**713**	**3,390**	**-**	**54,162**

Notes on pages 7 to 83 form an integral part of these financial statements.

CASH FLOW STATEMENT

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

	Note	2012	2011
Cash flow from operating activities			
Profit for the year		2,923	2,315
Adjusted for:			
Depreciation and amortization	20,21	1,168	955
Net impairment losses and provisions		1,642	2,048 2,048
Provisions for employee benefits		(40)	209
Fair value adjustment		(13)	73
Dividend income		-	(14)
Cash flow from operating activities before changes in operating assets and liabilities		**5,680**	**5,586**
Decrease /(Increase) in obligatory reserve with the Central Bank		(1,889)	3,014
Decrease /(Increase) in placements with banks		5,981	23,736
Increase in financing of customers		(67,931)	(29,070)
Increase in other assets		985	(1,937)
Increase in income tax prepayments		(236)	137
Increase/(decrease) in amounts due to banks		(11)	5,744
Increase in amounts due to customers		49,680	8,033
Decrease / (Increase) in other liabilities		(231)	673
(Increase)/Decrease in provisions for liabilities and charges		-	(1,673)
Non – current assets held for sale		-	(482)
Income tax		(78)	(236)

CASH FLOW STATEMENT

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

NET CASH FROM OPERATING ACTIVITIES		**(13,770)**	**7,939**
Investing activities			
Purchase of financial assets at fair value through profit and loss		25	20
Purchase of property and equipment		(1,003)	(1,919)
Purchase of intangible assets		(943)	(249)
Dividends received		12	14
NET CASH FROM INVESTING ACTIVITIES		**(1,909)**	**(2,134)**
Financing activities			
Increase in borrowings		39,358	12,468
Net cash from financing activities		**39,358**	**12,468**
Net (decrease)/increase in cash and cash equivalents		**29,399**	**23,859**
Cash and cash equivalents at the beginning of the year		**62,406**	**38,547**
Cash and cash equivalents at the end of the year	13	**91,805**	**62,406**

Notes on pages 7 to 83 form an integral part of these financial statements.

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

1. General information

Bosna Bank International d.d. (BBI Bank) 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.

The main activites of the Bank include providing the following banking services:

1. financing legal entities and physical persons
2. receiving and placing of deposits
3. activities in inter-bank market
4. buying and selling of foreign currencies, and
5. other banking services.

The shareholders of the Bank are:

	31 December 2012		31 December 2011	
	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 2012 Bosna Bank International employed 247 persons (2011: 235 employees).

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 Kapetanović
Vice President	Mostafa Mahmoud Mostafa
Member	Abdul Hakim Kanan
Member	Mehmet Kamil Tumer
Member	Edin Brkić

Sharia Board

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

Management

Director	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 international financial crisis, which was originally started as a liquidity crisis in 2007, and then evolved into a crisis in the housing market and a significant reduction in the quality of the portfolio of the banking sector has led to, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, higher interest rates on interbank loans and very high volatility in stock markets. Uncertainty in international financial markets has led to bank failures and bank rescues in the United States, Western Europe, Russia and other countries. Particular pressure on the entire financial system is a debt crisis in Europe, which resulted in lower credit ratings of most countries, and the problems at the level of public debt and the repayment of certain countries. Further development of the debt crisis in Europe and slowing economic growth in countries with which Bosnia and Herzegovina has strong economic relations cannot be fully predicted, nor effects on countries in the region, but it is certain that in the event of further deterioration, followed by negative effects on Bosnia and Herzegovina.

During the 2012-year, the banking sector in Bosnia and Herzegovina has recorded a further decline in the quality of loan portfolios, but this fact is not reflected directly on profitability. Implementation of accounting standards IAS 37 and 39 where the calculation of provisions for credit risks are based on the value of collateral has resulted in the growth of bank profitability in the Federation in relation to the previous year. On the other hand, the new regulations for the calculation of capital adequacy has caused a decline in the capital adequacy ratio of most of the banks, which essentially was not caused by the fall of capital or the growth of banks' assets, but by changing the logic of preparation of accounts. At the same time stability and security of the banking has been secured through a high capital adequacy rate, satisfactory liquidity position and participation in the assets of the funds.

1. General information (continued)

In July 2012, Moody's Investors Service has confirmed the credit rating "B3" for Bosnia and Herzegovina and changed the description "negative to stable outlook." In March 2012. Standard & Poor's affirmed the Bosnia and Herzegovina sovereign credit rating of "B" and changed the outlook "on observation - negative" outlook to "stable". No matter for the reduction in credit ratings of countries in the region during the 2012, Bosnia and Herzegovina is still the country with the worst credit rating in the region. The main reason for this rating is primarily political turmoil in the country which are slowing down and hindering faster economic development and progress. By the opinion of rating agencies there is some progress with the goal of membership in the EU, BiH is still faced with uncertainties regarding the possibility of its medium-term economic growth. They find that the global economic crisis is likely to slow economic growth in the country over the next few years. Another risk is the pressures on the banking sector through the high participation in the ownership of the bank by the Austrian and Italian banks.

Some companies that operate in the Federation had already ceased to work or have problems with liquidity, as evidenced by the growth in the number of insolvent companies, which affects the disorderly settlement of obligations to the Bank and irregular payment of salaries. Therefore, customers are in delay with financing - a legal entity, as well as their employees who use bank financing products, as debtors - individuals. All that has influenced that Bank needed to increase provisions for loan impairment by establishing an allowance for overdue receivables.

The labor market continues to stagnate. High levels of unemployment held throughout 2012.
Monetary policy will continue operating under a currency board arrangement has proven to be a good mechanism in financial crisis.

Although the impact of the economic and financial crisis can not be fully predicted. Management believes that it has taken all necessary measures to support the existence and growth of the Bank 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. 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. During 2012, the Bank was performing a review, a detailed assessment and classification of each individual financing on a monthly basis. Internal procedures related to the client financing segment are being applied.

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

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), the Law on Banks and Federal Banking Agency decisions. Based on the Law on Accounting and Auditing of the Federation of Bosnia and Herzegovina, standards applied in the Federation of Bosnia and Herzegovina are International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), which are translated to Bosnian language by the authorised 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.

2. Summary of significant accounting policies (continued)

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

New and amended standards and interpretations mandatory for the first time for the financial year beginning 1 January 2013, and which the Company has not early adopted

IFRS 9, Financial Instruments - I: 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. Key features of the standard are as follows:

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

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

IFRS 10 "Consolidated Financial Statements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) which 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 11 "Joint Arrangements", (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), which replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Venturers".

IFRS 12 "Disclosure of Interests in Other Entities", (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) which requires new disclosures by entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.

IFRS 13 "Fair Value Measurement", (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), which aims to improve disclosures and achieve consistency by providing a revised definition of fair value.

2. Summary of significant accounting policies (continued)

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

IAS 27 "Separate Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures", (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), which were changed by IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements"

Amendments to IAS 1 "Presentation of Financial Statements" (issued in June 2011, effective for annual periods beginning on or after 1 July 2012), which aim to improve the disclosure of items presented in other comprehensive income.

Amended IAS 19 "Employee Benefits" (issued in June 2011, effective for periods beginning on or after 1 January 2013), which makes changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits.

"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), which requires disclosures that will enable users to better evaluate the effect of netting arrangements, including rights of set-off.

"Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2014), which clarifies the meaning of 'currently has a legally enforceable right of set-off'.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013) which consists of improvements to five standards.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013), which clarify the transition guidance in IFRS 10 "Consolidated Financial Statements" and provide additional transition relief from reporting comparative information under IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities".

Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards - Government Loans" (issued in March 2012 and effective for annual periods beginning 1 January 2013), which give first-time adopters of IFRSs relief from full retrospective application of accounting for certain government loans on transition.

IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", (issued on 31 October 2012 and effective for annual periods beginning on or after 1 January 2014), which considers when and how to account for the benefits arising from the stripping activity in mining industry.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014), which introduced a definition of an investment entity which will be required to carry its investee subsidiaries at fair value through profit or loss.

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

2. Summary of significant accounting policies (continued)

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

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.

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

2. Summary of significant accounting policies (continued)

2.2. Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the mean exchange rates of the Central Bank of Bosnia & Herzegovina prevailing at the latest date of reporting period.
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

	2012	2011
	BAM	BAM
USD	1.4836	1.5116
EUR	1.9558	1.9558

2.3. Income from operations with clients

Net income from financing represents the 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 profit 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.

2.4. Fee and commission income and expense

Fees and commissions are generally recognized on an accrual basis when the service has been provided the client. Fee and commission income includes all income from the provision of services to clients..

Fees for approval of financing and guarantees in 2011 and 2012 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.

2. Summary of significant accounting policies (continued)

2.4. Fee and commission income and expense (continued)

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.

2.5. Lease payments

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

2.6. 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.

2.7 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.

2. Summary of significant accounting policies (continued)

2.8. 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.

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.

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 other comprehensive income 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.

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)

2.8. Financial assets (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 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.

Liabilities for taken loans and other borrowings. Liabilities for taken loans are initially recognised at the agreed amount, which is amount that was actually received. Such liabilities are stated at amortised cost, and all consequent transaction costs are recognised in the income statement of the current period.

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))

2.8. Financial assets (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.

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 exposures (including also SME clients)
- 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)

2. Summary of significant accounting policies (continued)

2.8. Financial assets (continued)

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.

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

Bank applies portfolio impairments when:

1. Clients meet their obligations (Portfolio financing loss provisions)
2. Clients do not meet their obligations, but exposures are not individually significant (Specific financing loss provisions)

a) Financial 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.

2. Summary of significant accounting policies (continued)

2.8. Financial assets (continued)

If the amount of provisions for loan losses, calculated in accordance with the Decision on Minimum Standards for Credit Risk Management and classification of banks' assets, is greater than the sum of the amounts of balance sheet assets value adjustments and provisions for losses on off-balance sheet items and has already established reserves for credit losses, the difference the Bank is required to be treated as missing provisions for loan losses in accordance with the foregoing decision. The amount of missing provisions for credit losses regulatory requirement is deducted from capital.

If the amount of value adjustments and provisions for losses on off-balance sheet items is greater than the calculated amount of reserves for credit losses, the bank is not required to establish provisions for loan losses. Banks can not be carried higher value adjustment in respect of accrued reserves for credit losses for the individual client or party used to reduce the missing provisions for credit losses for other clients.

In accordance with the same decision, the Bank can not diminish the amount already established reserves for credit losses.

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.

2.9. 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

BBI Academy

BB VIP Business Club

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

2. Summary of significant accounting policies (continued)

2.10. 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 capitalized. 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:

	2012	2011
	%	%
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%

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 determine 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. Summary of significant accounting policies (continued)

2.11. 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.

2.12. Employee benefits

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

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

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

The cost of providing benefits is determined using the projected unit credit method. The project unit credit method considers each period of service giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate equal to interest rate of state securities.

2. Summary of significant accounting policies (continued)

2.13. 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.

2.14. 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.

2.15. 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.

2.16. 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.

2.17. 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 30).

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.

Credit Risk Management and Provisions and Impairement Policies

Credit and Market Risk Management Division assesses the credit risk by analyzing financial statements taking into account that balance of companies granting loans should have a balanced structure and maturity in order not to come into danger of insolvency, or inability of regular servicing obligations, and so as not to spoil the basic rule of the balance-balance of assets and liabilities.
In analyzing balance sheets, the Division applies fundamental techniques and financial analysis whereat the greatest attention is given to items of assets such as inventory, accounts receivable and fixed assets due to their susceptibility to change over time, as the inventory and accounts receivable decrease and increase, and the fixed assets are depreciated.

Exposure to credit risk / risk financing / must be covered by adequate collateral, in accordance with legal regulations and internal regulations.
Types of collateral acceptable to the Bank, as well as the relationship between the value of collateral and loan / financing or guarantees are established by the Decision on the definition, assessment and treatment of the underlying collateral.

The Bank calculates impairment provisions in accordance with the International Financial Reporting Standards. The provisions are calculated with regard to the risk of individual placement and existence of objective evidence of impairment, taking into consideration quality, value, and market quality of collaterals. Impairment provisions are created on a group and individual basis. Individually significant placements are assessed for impairment on an individual basis, while the remainder of the credit portfolio is assessed collectively. Individually significant placements are placements whose expousure is higher than 50.000 BAM and who have days of delay more than 90.

3. Financial risk management (continued)
3.2. Credit Risk (continued)

Classification proposal is drafted by Credit and market risk management division after that Operations Sector and Sector of financial control, strategic planning and general accounting finish all the activities of the current month related to the booking of all inflows, penalties and compliance of all account balances that are directly related to the assets which are the subject of classification.
The proposal for the calculation of specific provisions contains the overall exposure of the client across all products in the Bank.
Draft proposals of the provisions for the Client are delivered to the Retail banking sector and Corporate banking sector.
Corporate Banking and Retail Sector submit comments for the Clients they believe inadequate categorization and percentage of provision was proposed.

After accepting comments of Retail and Corporate banking sectors, Credit and market risk management division submits classification proposal along with the comments to the Bank Management during the first working week of the following month.
The Bank Management considers the submitted explanations of Credit and market risk management division, comments of Corporate banking and Retail sector, and makes the final decision on the level of provisions for the month upon which Credit and market risk management division constitutes the final report (tabular view) of the level of specific provisions for the current month.
Report (tabular view) of the proposed categorization of the client is approved and signed by the Bank Management.
After the completion of regulatory provision calculation activities, Credit and market risk management division discounts cash flows and creates provisions proposal in accordance with the internal methodology for impairment under IAS 39. Proposal is signed by the Bank Management upon which Sector of financial control, strategic planning and general accounting book it.
The meeting is held once a month in the first working week of the following month. Minutes of the meeting constitutes Credit and market risk management division.

In order to diversify assets and minimize the concentration of credit risk / risk financing / in its operations, the Bank should focus its loans to as many customers as possible, with smaller amounts.
In case the user needs larger amounts of loans / financing / guarantee, the Bank is included on the principle of co-financing with other banks based on customer suggestions or bank.
Any bank participating in the co-funding assumes the risk of its portfolio.
The Bank does not express willingness of financing the clients in the following cases:

⇒ If there is no clearly legitimate purpose for the request and precise maturity date of the placement,
⇒ If a refund of disbursed funds is based only on the possible activation of security instruments,
⇒ If they caused the losses in the past, which were transferred to the Credit and market risk management division - Section for monitoring of collecting problematic fundings and reprogramming (except of items whose duties are reprogrammed),
⇒ If they are of dubious morals (individuals and companies established for money laundering)
⇒ If the approval request, the Bank came to a subordinate position in relation to another provider loan / financing /,
⇒ If the person or legal entity is on the banks blacklist (list of suspicious persons, organizations, companies)

3. Financial risk management (continued)

3.2. Credit Risk (continued)

Bank has ensured that credit analysis and monitoring of the project is carried out with due regard to environmental factors and the environment in accordance with national laws, standards and regulations set forth by the Central Bank, which includes the prohibition of financing of any transactions or project that would have a detrimental impact the environment.

The Bank takes into account the dispersion of risk for particular regions and sectors, in an effort to direct investments in all economic sectors:

- citizens and independent artisans and merchants;
- individual farmers
- companies from trading activities;
- companies from industrial activities;
- companies from other activities (tourism, catering, etc.)
- banks and financial institutions.

Committee for funding and investment of the Bank decides whether to approve a particular funding or guarantee of individuals and legal entities that cause or increase exposure to credit risk / risk financing / on the basis of:

- Any legal transaction whose value comes to the Bank's exposure to an individual user or group of people;
- Any legal transaction which would result or increased exposure towards the individual user or group of people.

Exceptions are funding to the amount of 25,000 KM where jurisdiction over individual approval of funding for individuals has a branch manager. In making its decision on the approval of exposure to one customer or group of people over the amount of 3,000,000. 00 KM, the Bank is required to obtain the prior consent of the Supervisory Board.
In making its decision to approve the Bank's exposure to credit risk / risk financing, adopted procedures for approving loans to legal entities and procedures for funding individuals for individual products are fully respected.

Making decisions about exposure to credit risk / risk financing to related parties are carried out in accordance with Specific policies with procedures for operations with related parties.

Banks granting loans to employees shall be made in accordance with the Policies and procedures of financing Bank employees.

Credit Risk Management function is separate from everyday tasks related to relationships with clients and lending / financing /. Credit and market risk management division assesses credit risk of each application for funding for legal entities and individuals.
Opinion shall be recorded in a document called "Assessment of Division" and is an integral part of the proposal for funding of legal entities or individuals.
As part of its responsibility, which includes providing a stable portfolio of risky investments, Credit and market risk management division should monitor limits, respectively the maximum level of exposure in relation to individual customers by individual user or group of people at the time of approval of funding.
Each individual application for funding of legal entities should include the percentage of exposure to an individual user or a group of people in relation to bank capital.

Sector of strategic planning and general accounting quarterly submits information on the amount of share capital by the final data at the end of each quarter (the latest by 15th of the month for the previous quarter) with respective percentages and amounts of concentration of credit risk to Credit and market risk management division, Corporate banking and Retail sector, in the following form:

3. Financial risk management (continued)

3.2. Credit Risk (continued)

- ⇒ allowed exposure to credit risk without collateral (amount in BAM) = Bank Share Capital x 5%
- ⇒ large exposures to credit risk- (amounts in BAM) = Bank Share Capital x 15%
- ⇒ allowed exposure to credit risk without first-class collateral (amount BAM) = Bank Share Capital x 25%
- ⇒ maximum exposure to credit risk- (amounts in BAM) = Bank Share Capital x 40%
- ⇒ large sum of exposures to credit risk- (amounts in BAM) = Bank Share Capital x 300%

Sector of financial control, strategic planning and general accounting quarterly reports Bank Management on the development of exposure limits defined by articles 4, 5, 6, 7, 8, 9 of the Program, policies and procedures to ensure diversification and concentration of financing risk after the completion of the accounting entries that have resulted in a reduction of capital. Bank Management provides guidance to remove any excess, and more balanced distribution, management and control of existing and potential exposure of the Bank.

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

3. Financial risk management (continued)

3.2. Credit Risk (continued)

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

31 December 2012	Total carrying value	Individual impairment	Collective impairment	Total netcarrying value
Cash and balances with the Central and other banks	91,825	(20)	-	91,805
Mandatory reserve with Central Bank	22,333	-	-	22,333
Placements in other banks	33,420	(25)	-	33,395
Financial assets available for sale	58	(13)	-	45
Financial assets at fair value through profit or loss	419	-	-	419
Financing of customers	279,839	(9,419)	(2,583)	267,837
Other assets	2,063	(24)	(31)	2,008
Total	429,957	(9,501)	(2,614)	417,842
31 December 2011				
Cash and balances with the Central Bank 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
Other assets	3,148	-	(90)	3,058
Total	**336,863**	**(3,532)**	**(6,088)**	**327,243**

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

3. Financial risk management (continued)

3.2. Credit Risk (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. Default assets are determinate like C,D and E chategory loans and all loans with days of delay higher than 90 days.

	Gross maximum exposure	Impairment provision	Maximum exposure
31 December 2012			
Non default	369,917	(4,089)	365,828
Default	35,167	(7,958)	27,209
	405,084	(12,047)	393,037
31 December 2011			
Non default	282,269	(3,919)	278,350
Default	30,550	(5,610)	24,940
	312,819	(9,529)	303,290

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

3. Financial risk management (continued)

3.2. Credit Risk (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 December 2012								
Without rating	125,245	(45)					125,245	(45)
Non default			160,244	(3,273)	84,428	(771)	244,672	(4.044)
Default			26,377	(5,121)	8,790	(2,837)	35,167	(7,958)
Total	**125,245**	**(45)**	186,621	**(8,394)**	**93,218**	**(3,608)**	**405,084**	**(12,047)**
Total (net)	**125,200**		178,227		**89,610**		**393,037**	
31 December 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**	

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

3. Financial risk management (continued)

3.2. Credit Risk (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 2012			
Portfolio risk provisions	221,658	(6,248)	215,410
Specific risk provisions	58,181	(5,745)	52,427
	279,839	**(12,002)**	**267,837**
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**

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)

3.2. Credit Risk (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 2012						
Net credit exposure	89,387	49,562	178,450	267,712	**267,837**	**317,274**
31 December 2011						
Net credit exposure	67,934	83,025	133,574	285,360	**201,508**	**368,385**

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 customer	Due not impaired	Impaired receivables	Impairment allowance	Total
31 December 2012					
Corporate	70,209	3,547	112,866	(8,394)	178,228
Banks	125,244	-	-	(45)	125,199
Individuals	16,975	216	76,027	(3,608)	89,610
Total	**212,428**	**3,763**	**188,893**	**(12,047)**	**393,037**
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**

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

3. Financial risk management (continued)

3.2. Credit Risk (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 2012					
No delay	175,091		170,470	(3,899)	**341,663**
Up to 30 days	-	23,321	12,974	(207)	**36,088**
From 30 to 90 days	-	-	4,783	(134)	**4,649**
Over 90 days	-	-	18,445	(7,807)	**10,638**
Total	**175,091**	**23,321**	**206,672**	**(12,047)**	**393,037**
31 December 2011					
No delay	115,373		142,484	(4,091)	**253,766**
Up tp 30 days	-	20,687	10,776	(251)	**31,212**
From 30 to 90 days	-	59	5,017	(126)	**4,950**
Over 90 days	-	1,054	17,368	(5,060)	**13,362**
Total	**115,373**	**21,800**	**175,645**	**(9,528)**	**303,290**

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

3. Financial risk management (continued)

3.2. Credit Risk (continued)

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

		2012		2011
Concentration risk by industry sector	**BAM**	**%**	**BAM**	**%**
Agriculture, hunting, fishing	6,001	2,24%	1,133	0,56
Production	66,454	24,81%	50,299	24,96
Construction	17,263	6,45%	13,829	6,86
Trade	61,157	22,83%	47,730	23,69
Tourism	5,437	2,03%	4,774	2,37
Transport and communications	5,460	2,04%	4,092	2,03
Financial institutions	872	0,33%	1,053	0,52
Property	8,070	3,01%	6,415	3,18
Other	534	0,20%	244	0,12
Education and other public services			-	-
Entrepreneurs	1,387	0,52%	1,801	0,89
Total corporate	**172,635**	**64,46%**	**131,370**	**65,19**
Housing	52,936	19,76%	41,831	20,76
Other	42,266	15,78%	28,307	14,05
Total residents	**95,202**	**35,54%**	**70,138**	**34,81**
Total	**267,837**	**100,00%**	**201,508**	**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)

3.2. Credit Risk (continued)

Reprograms and restructuring

Reprogrammed and restructured 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 refprogrammed financing of customers as of 31 December 2012 and 2011 can be summarized as follows:

	Number of restructured financing of customers	Gross financing of customer receivable
31 December 2012		
Corporate	40	24,018
Retail and SME	18	685
Total	**58**	**24,703**
31 December 2011		
Corporate	41	26,793
Retail and SME	14	1,793
Total	**55**	**28,586**

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.

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. Financial risk management (continued)

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)

3.4. Foreign exchange risk (continued)

Concentration of currency risk of assets and liabilities

The Bank had the following significant currency positions as at 31 December 2012 and 31 December 2011. 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 2012	BAM	EUR	USD	Other	Total
Assets					
Cash and balances with banks	20,832	61,492	5,745	3,736	91,805
Obligatory reserve with the Central Bank	22,333	-	-	-	22,333
Placments with other banks	1	31,790	1,604		33,395
Assets available for Sale	27	-	18	-	45
Financial assets at fair value Through profit or loss	323	96	-	-	419
Financing of customers	267,777	60	-	-	267,837
Other assets	1,887	108	12	1	2,008
Property and equipment	8,790	-	-	-	8,790
Intangible assets	920	-	-	-	920
Total assets	**322,890**	**93,546**	**7,379**	**3,737**	**427,552**
Liabilities and equity					
Due to banks	35,277	-	-	-	35,277
Due to customers	162,007	109,147	7,115	3,144	281,413
Borrowings	13,513	39,117			52,630
Other liabilities	2,722	303	45	1	3,071
Provisions for liabilities and charges	814	128		-	999
Share capital and reserves	54,162	-	-	-	54,162
Total liabilities and equity	**268,496**	**148,695**	**7,217**	**3,145**	**427,552**
Net foreign exchange position	**54,394**	**(55,149)**	**162**	**592**	**-**

Difference in net foreign exchange positions exists because all financing with currency clause EUR are shown in BAM position.

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

3. Financial risk management (continued)

3.4. Foreign exchange risk (continued)

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
Other assts	2,985	23	-	51	3,059
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**	**-**

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.

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

3. Financial risk management (continued)

3.5. Profit margin risk

As at 31 December 2012	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	76.805	8.851	1.425	2	4.722	-	91.805	15.000
Obligatory reserve with the Central Bank	-	22.333	-	-	-	-	22.333	22.333
Placments with other banks	-	932	30.933	1.530	-	-	33.395	32.838
Assets available for Sale	45	-	-	-	-	-	45	-
Financial assets at fair value Through profit or loss	419	-	-	-	-	-	419	-
Financing of customers	5.047	97.529	33.030	45.080	87.151	-	267.837	16.094
Other assets	2.008	-	-	-	-	-	2.008	507
Property and equipment	8.790	-	-	-	-	-	8.790	-
Intangible assets	920	-	-	-	-	-	920	-
Total assets	**94.034**	**129.645**	**65.388**	**46.612**	**91.873**	**-**	**427.552**	**86.772**
Liabilities and equity								
Due to banks		5.867	-	9.852	19.558	-	35.277	
Due to customers	117.558	2.206	31.225	65.813	62.815	1.796	281.413	12.219
Borrowings		-	-	-	6.011	46.619	52.630	32
Other liabilites	142	544	2.229	156			3.071	322
Provisions for liabilities and charges	170	829	-	-	-	-	999	194
Share capital and reserves	54.162	-	-	-	-	-	54.162	-
Total liabilities and equity	**172.032**	**9.446**	**33.454**	**75.821**	**88.384**	**48.415**	**427.552**	**12.767**
Net foreign exchange provision	**(77.998)**	**120.199**	**31.934**	**(29.209)**	**3.489**	**(48.415)**	**-**	**74.005**

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

3. Financial risk management (continued)

3.5. Profit margin risk

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
Other assets	3,058	-	-	-	-	-	3,058	-
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**
Liabilites and equity								
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 liabilties	3,302	-	-	-	-	-	3,302	-
Provisions for liabilities and charges	1,988	-	-	-	-	-	1,988	-
Share capital and reserves	51,538	-	-	-	-	-	51,538	-
Total liabilites and equtiy	**128,825**	**19,993**	**18,831**	**79,861**	**83,829**	**5,782**	**337,121**	**48,560**
Profit margin gap	**(73,871)**	**182,969**	**(6,882)**	**(18,455)**	**(77,979)**	**(5,782)**	**-**	**93,191**

3. Financial risk management (continued)

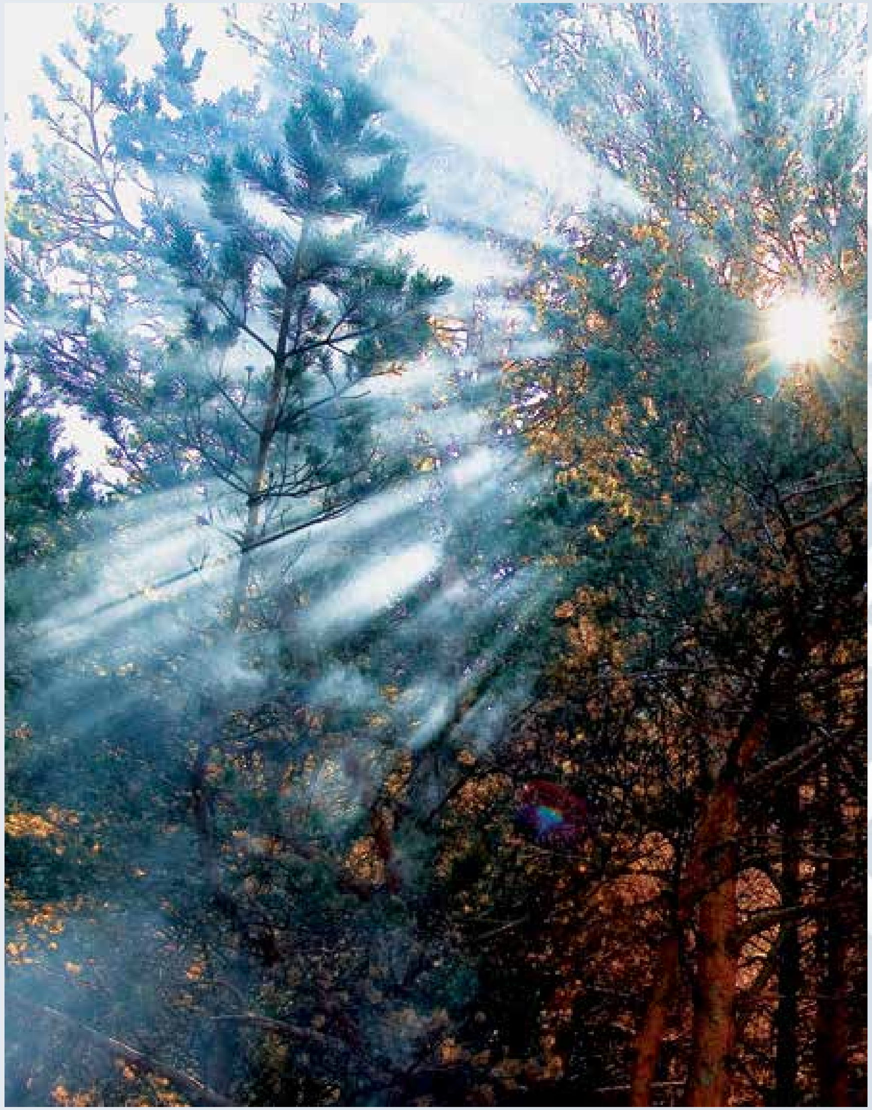
3.6 Liquidity risk

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 2012 and 2011 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.



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

3. Financial risk management (continued)

3.6 Liquidity risk

As at 31 December 2012	Without maturity	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	-	85,656	1,425	2	4,722	-	91,805
Obligatory reserve with the Central Bank	-	22,333	-	-	-	-	22,333
Placements with other banks	-	932	30,933	1,530	-	-	33,395
Assets available for sale	-	10	35	-	-	-	45
Financial assets at fair value	-	-	419	-	-	-	419
Financing of customers	-	97,536	38,070	45,080	87,151	-	267,837
Other assets		737	1,270	1	-	-	2,008
Property and equipment	8,636	-	154	-	-	-	8,790
Intangible assets	920	-	-	-	-	-	920
Total assets	**9,556**	**207,204**	**72,306**	**46,613**	**91,873**	**-**	**427,552**
Liabilities and equity							
Due to banks	-	5,868	9	9,842	19,558	-	35,277
Due to customers	-	194	134,803	70,285	65,538	10,593	281,413
Borrowings	-	-	-	-	6,011	46,619	52,630
Other liabilites	-	686	2,229	156	-	-	3,071
Provisions for liabilities and charges	-	999	-	-	-	-	999
Share capital and reserves	-	4,103	-	-	-	50,059	54,162
Total liabilities and equity	**-**	**11,850**	**137,041**	**80,283**	**91,107**	**107,271**	**427,552**
Maturity gap	**9,556**	**195,354**	**(64,735)**	**(33,670)**	**766**	**(107,271)**	**-**

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

3. Financial risk management (continued)

3.6 Liquidity risk

As at 31 December 2011	Without maturity	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	-	26,231	9,801	53,886	81,990	29,600	201,508
Other assets	-	3,058	-	-	-	-	3,058
Property and equipment	9,593	-	-	-	-	-	9,593
Intangible assets	285	-	-	-	-	-	285
Total assets	**9,878**	**133,636**	**12,733**	**63,434**	**87,840**	**29,600**	**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	13,272
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 equity	**-**	**93,469**	**19,541**	**81,030**	**85,519**	**57,562**	**337,121**
Maturity gap	**9,878**	**40,167**	**(6,808)**	**(17,596)**	**2,321**	**(27,962)**	**-**

(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.

Accounting standards IAS 37 and 39 were implemented for the first time in Bosnia in year 2011. IAS 37 and 39 are applied in profit and loss and balance sheet accounts. However, regulatory bodies still require parallel reporting of both risk provisions in line with IAS, as well as old regulatory provisions. Starting with 2011 the banking agency introduced a deduction item in the calculation of the capital adequacy ratio, which is subtracted from the Bank's Net Capital. In 2011 the position included the difference between IAS and regulatory reserves from previous years, which were calculated as following: the balance of risk provisions in line with IAS minus the balance of risk provisions in line with FBA.

In 2012, the content of the position has changed and represents the negative difference between IAS provisions and regulatory reserves on each client account level. In this position negative differences (IAS provision lower than local reserve on account level) are shown here, whereas positive differences (IAS provision higher than local provision on each client account level) are neglected.

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 2012 prepared in accordance with Agency regulations.

	2012	2011
The Bank`s net capital in accordance with FBA regulations		
Basic capital	50,119	48,799
Additional capital	8,477	4,579
Reserves for losses from loans by regulation requirements	8,096	117
Capital, net	**50,500**	**53,261**
Total weighted risk assets	**314,374**	**253,341**
Total weighted risk off-balance items	**18,651**	**17,268**
Total weighted risk assets and off-balance items	**333,025**	**270,609**
Capital adequacy ratio as at 31 December	**15,20%**	**19,70%**

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

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.

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

	2012	2011
Income from operations with other Banks (Murabaha, Wakala)	2,598	2,094
Income from retail sector financing (Musharaka, Ijara)	6,037	4,959
Income from corporate sector financing (Musharaka)	11,503	9,962
Income from obligatory reserve	11	154
Income from financing and investments	*20,149*	*17,169*
Expenses from amounts due to retail customers (Musharaka)	(2,382)	(1,825)
Expenses from amounts due to corporate customers (Musharaka)	(3,960)	(3,856)
Expenses from amounts due to banks(Murabaha, Wakala)	(1,262)	(1,166)
Expenses from amounts due to customers and banks	*(7,604)*	*(6,847)*
Total	**12,545**	**0,322**

6. Net fee and commission income

	2012	2011
Fees from payment transactions	1,800	1,672
Guarantees and letters of credit	890	806
Commision income for stock exchange trade	235	273
Fees from foreign exchange transactions	573	445
Other banking services	2,257	1,793
Fee and commission income	*5,755*	*4,989*
Fee expense from card and other bank acitivities	486	479
Fee expense from intermediary services	302	233
Fees from foreign exchange transactions	57	107
Fees from payment transactions	120	92
Fee and commission expense	*(965)*	*(911)*
Total	**4,790**	**4,078**

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

7. Net financial gain

	2012	2011
Foreign exchange gains	368	278
Gain/ (Losses) on assets at fair value through profit or loss	30	(73)
Income from dividends	12	14
Total	**410**	**219**

8. Personnel expenses

	2012	2011
Salaries	4,077	3,623
Taxes and contributions related to salaries	2,500	2,248
Other employee expenses	1,363	1,448
Total	**7,940**	**7,319**

The average number of employees for the year ended 31 December 2012 and 2011 was 242 and 220, respectively.

Personnel expenses include BAM 1,335 thousand (2011: BAM 1,226 thousand) of defined pension contributions paid into the State pension plan. Contributions are calculated as percentage of the gross salary paid.

9. Other operating expenses

	2012	2011
Deposit insurance	600	512
Professional services	403	322
Rent	719	634
Office materials and costs of maintenace	601	633
Security	533	459
Telecommunications	438	421
Marketing and advertising	312	276
Supervisory board and shareholders meetings	200	191
Energy, postage and communications	202	151
Other expenses	493	573
Total	**4,501**	**4,172**

10. Net impairment losses and provisions

	2012	2011
Financing of customers (Note 18)	2,572	(2,184)
Cash and cash equivalents (Note 13)	20	-
Placements with banks (Note 15)	(9)	1,027
Other assets (Note 19)	8	(51)
Provisions for contigent liabilities and commitments (Note 26)	(989)	841
Total	**1,602**	**(367)**

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

11. Collected written-off receivables

	2012	2011
Collected written-off receivables from customer financing- principal	1	-
Collected written-off receivables from customer financing – profit margin	72	347
Other collected receivables	10	-
Total	**83**	**347**

12. Income tax

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

	2012	2011
Current tax	299	236
Total income tax expense	**299**	**236**

Reconciliation of the accounting profit and income tax expense

	2012	2011
Profit before tax	2,923	2,315
Effects of items which are not deductible:		
- non-taxable income	(11)	(14)
- non-deductible expenses	78	61
Taxable profit for the year	2,990	2,362

13. Cash and balances with banks

	2012	2011
Current accounts with the Central Bank	15,000	32,602
Cash on hand	10,035	8,599
Current accounts with other banks	66,790	21,205
Provisions for impairment (Note 10)	(20)	-
Total	**91,805**	**62,406**

14. Obligatory reserve with the Central Bank

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

- borrowings taken from foreign entities;
- funds from government aimed at development projects,

The obligatory reserve requirement represents:
- 10% 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

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

15. Placements with banks

	2012	2011
Placements with banks – gross	33,420	39,412
Provisions for impairment	(25)	(36)
Total	**33,395**	**39,376**

Placements with banks include:

- cash deposit in the amount of BAM 149 thousand (AED 260 thousand) placed with Dubai Islamic Bank as security for a guarantee issued by that bank on behalf of a customer of the Bank,
- cash deposit with Volksbank ad Banja Luka in the amount of BAM 74 thousand (BAM 76 thousand as at 31 December 2011) as collateral for the Bank's liabilities to Visa in respect of credit card operations,

As of 31 December 2012, profit rates on placements in EUR were 2,80% and 5,00% (31 December 2011 – profit rates on placements in EUR were 1,15%-6,0% p.a.).

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

	2012	2011
Balance as at 1 January	36	1,063
Net (decrease)/increase in provisions (Note 10)	(9)	(1,027)
Balance as at 31 December	**25**	**36**

16. Financial assets available for sale

	2012	2011
Investments in related parties	10	10
Other investments	35	47
Total	**45**	**57**

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

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

17. Financial assets at fair value through profit and loss

	2012	2011
Listed equity securities		
BH Telecom d.d. Sarajevo	113	86
Al Salam Bank – Bahrain B.S.C.	97	84
JP Elektroprivreda HZ HB d.d. Mostar	41	61
Bosnalijek d.d. Sarajevo	69	40
Ingram d.o.o. Srebrenik	21	20
Energoinvest d.d. Sarajevo	22	19
OIF Ilirika global	-	19
GP ŽGP Sarajevo	19	19
Klas d.d. Sarajevo	14	17
JP Elektroprivreda BH d.d. Sarajevo	13	11
Other	10	18
Total	**419**	**394**

The Bank incurred a net fair value gain on this portfolio of 25 thousand BAM (2011: net loss of 73 thousand BAM) Note 7.

18. Financing of customers

	2012	2011
Corporate		
- short term	66,212	44,651
- long term	120,409	94,930
	186,621	**139,581**
Retail		
- short term	8,612	7,614
- long term	84,606	63,806
	93,218	**71,420**
Total gross financing of customers	**279,839**	***211,001***
Impairment allowance	(12,002)	(9,493)
Net financing of customers	**267,837**	**201,508**

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

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

	2012	2011
Balance as at 1st of January	9,493	7,415
Net increase in provisions (Note 10)	2,572	2,184
Write-offs	(63)	(106)
Balance as at 31 December	**12,002**	**9,493**

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

Profit rates for financing of customers, given as at 31 December 2012 and 2011 are summarized as follows

	2012		2011	
	BAM	Annual profit rate	BAM	Annual profit rate
Companies	186,848	2,99% - 12%	139,581	3% - 12%
Citizens	92,991	3,49% - 15%	71,420	3% - 15%
Total	**279,839**		**211,001**	

19. Other assets

	2012	2011
Receivables from other banks in relation to card operations	482	75
Fee receivables	115	223
Prepaid expenses	465	134
Material, tools and consumables	46	56
Receivables from State bodies	171	1,850
Non current assets held for sale	143	482
Other assets	684	328
Subtotal	2,106	3,148
Provisions for impairment	(98)	(90)
Total	**2,008**	**3,058**

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

	2012	2011
Balance as at 1 January	**90**	**39**
Net increase of provisions (Note 10)	8	51
Balance at 31 December	**98**	**90**

19.a Non-current assets held for sale

	2012	2011
Buildings	**100**	**482**

The Bank collected collaterals from debtors for receivables form financing of customers in 2012 in the amount of 100 thousands BAM. Based on Banking Agency Decision this collaterals should be sold in period of one year from collection date.

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

20. Property and equipment

	Land and buildings	Computers	Furniture and equipment	Construction in progress	Investment in others property	Total
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	-
Disposals						
Balance at 31 December 2011 Restated	**6,328**	**1,911**	**3,844**	**698**	**1,304**	**14,085**
Balance at 1 January 2012	**6,328**	**1,911**	**3,844**	**698**	**1,304**	**14,085**
Additions	-	-	-	1003	-	1,003
Transfers	28	148	352	(532)	(33)	(37)
Transfer to the software	-			(865)	-	(865)
Write off	-	(40)	(12)	-	-	(52)
Balance at 31 December 2012	**6,356**	**2,019**	**4,184**	**304**	**1,271**	**14,134**
Accumulated depreciation						
Balance at 1 January 2011	**319**	**795**	**1,601**	**-**	**991**	**3,706**
Depreciation charge	72	278	389	-	136	875
Disposals	-	(73)	(16)	-	-	(89)
Transfers	**391**	**1,000**	**1,974**	**-**	**1,127**	**4,492**
Balance at 31 December 2011	*391*	*1,000*	*1,974*		*1,127*	*4,492*
Depreciation charge	83	297	457	-	67	904
Disposals	-	(40)	(12)	-	-	(52)
Balance at 31 December 2011	**474**	**1,257**	**2,419**	**-**	**1,194**	**5,344**
Net book value 31 December 2012	**5,882**	**762**	**1,765**	**304**	**77**	**8,790**
Net book value 31 December 2011 201Restated	**5,937**	**911**	**1,870**	**698**	**177**	**9,593**

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

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

21. Intangible assets

	Software and licences	Assets in construction	Total
Cost			
Balance at 1 January 2011	**799**	**-**	**799**
Additions	57	192	249
Transfers	114	(114)	-
Balance at 31 December 2011	**970**	**78**	**1,048**
1, January 2012,	970	78	1,048
Additions		865	865
Transfers	943	(943)	0
Disposals	35		35
Balance at 31 December 2012	**1,948**	**-**	**1,948**
Accumulated amortization			
Balance at 1 January 2011	**684**	**-**	**684**
Amortisation charge	79	-	79
Disposals	-	-	-
Transfers			
Balance at 31 December 2011	**763**	**-**	**763**
1 January 2012,	763		763
Amortisation charge	265		265
Balance at 31 December 2012	**1,028**		**1,028**
Balance at 31 December 2012	**920**	**0**	**920**
Balance at 31 December 2011	**207**	**78**	**285**

Assets in the course of production as at 31 December 2012 mainly represent addition of new licenced software bought from Cardinfo BDS d.o.o. Sarajevo which was put into use in 2012.

22. Due to customers

	2012	2011
Companies:		
Current/settlement accounts	72,965	51,809
Term deposits	99,957	101,186
Total Companies	**172,922**	**152,995**
Citizens		
Current/settlement accounts	14,728	12,303
Term deposits	93,763	66,435
Total Citizens	**108,491**	**78,738**
Total	**281,413**	**231,733**

The average interest rate charged on term deposits in 2012 and 2011 was 4,12% and 4,07% respectively. Accrued liabilities for the interest rate on 31 December 2012 and 2011 was 1,318 thousand BAM and 914 thousand BAM respectively.

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

23. Due to other banks

	2012	2011
Islamic Development Bank, Saudi Arabia	19,558	19,621
Abu Dhabi Islamic Bank, UAE	9,808	9,799
Asya Katalim Bankasi A.S.	5,911	5,868
Total	**35,277**	**35,288**

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 2012 and 2011 amounted to 550 thousand BAM and 552 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 2012 and 2011 amounted 289 thousand BAM and 418 thousand BAM, respectively.

The deposit of Asya Katlim Bankasi A.S. has been used several times in 2012 at a cost of 1,50 % and 2,95%. Total paid profit margin from the respective bank amounted to 23 thousand BAM on 31 December 2012.

24. Borrowings

	2012	2011
T.C.Ziraat bankasi A.S.republic of Turkey	39,118	-
Ministry of finance Federation of Bosnia and Herzegovina (IFAD)	984	984
Ministry of finance Federation of Bosnia and Herzegovina (Foundation ODRAZ)	12,528	12,288
Total	**52,630**	**13,272**

The Bank obtains financing from the Turkish government, the Ministry of Finance of Bosnia and Herzegovina anf the World Bank at interest rates which may be lower than rates at which the Bank could source the funds from non-government related lenders.
As a result of such financing, the Bank is able to advance funds to specific customers at advantageous rates. Management has considered whether gains or losses should arise on initial recognition of such instruments. As the transactions are with unrelated parties, management's judgement is that these funds and the related lending are at the market rates and no initial recognition gains or losses should arise. In making this judgement management also considered that these instruments are a separate market segment.

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.

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

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%.

25. Other liabilities

	2012	2011
Unallocated payments received	799	785
Liabilities toward shareholders of liquidated ICB Bank, FBiH	343	354
Liabilities to suppliers	399	376
Accrued expenses	219	222
Donations	350	203
Managed funds	44	43
Deferred income from fees	163	140
Liability for contract cancelation penalties (Mysis)	-	323
Other liabilities	754	856
Total	**3,071**	**3,302**

Managed funds

Funds managed by the Bank on behalf of third parties do not represent the Bank´s assets, and are therefore not included in the statement of financial position.

	2012	2011
Liabilities		
Liabilities to Government – Ministry of Bosnian Homeland War veterans (FBiH)	2,336	2,555
Foundation Al Mactoum	400	395
Total	**2,736**	**2,950**
Assets		
Retail-placed funds	2,692	2,907
Total	**2,692**	**2,907**
Difference in commission activities	**44**	**43**

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

26. Provisions for liabilities and charges

	2012	2011
Provisions for off-balance liabilities	720	1,669
Provisions for severance and unused vacation	279	319
Total	**999**	**1,988**

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

25. Other liabilities (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 2012	1,988	1,669	319
Impairment allowances (Note 10)	(989)	(949)	(40)
Balance as at 31 December 2012	**999**	**720**	**279**

Impairment losses for off-balance sheet exposure are recognized through net impairment losses and provisions in the statement of comprehensive income (Note 10).

27. Share capital

The Bank`s ownership structure is as follows:

	31 December 2012			31 December 2011		
	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**

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

28. 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.

	2012	2011
Net profit after tax	2,624	2,079
Weighted average number of shares in issue	593,823	593,823
Basic/diluted earnings per share (in BAM)	4,42	3,50

29. Commitments and contigencies

	2012	2011
Performance guarantees	42,726	32,348
Payment guarantees	6,894	6,308
Unused credit lines	10,838	12,801
Letters of credit	3,388	2,870
Total	**63,846**	**54,327**

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 2012				
Operating lease commitments	688	2.442	61	**3.191**
Total	**688**	**2,442**	**61**	**3,191**
As at 31 December 2011				
Operatinf lease commitments	675	2,238	158	**3,071**
Total	**675**	**2,238**	**158**	**3,071**

Legal cases

From time to time in the ordinary course of business, the Bank receives claims from customers. The largest such case outstanding relates to a claim from a customer for BAM 200 thousand. Bank external lawyer confirmed that in their opinion there is a remote possibility that Bank will lose on court. As such no provision for legal case have been raised in this financial statements.

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

30. 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:

	2012		2011	
	Receivables	Payables	Receivables	Payables
Islamic Development Bank, Saudi Arabia – Shareholder	254	19,597	7	19,621
Dubai Islamic Bank, UAE - Shareholder	149	-	132	-
Abu Dhabi Islamic Bank, UAE - Shareholder	2	9,808	1	9,799
BBI Leasing and Real Estate d.o.o. - other	4,262	2,330	2,733	2,061
Total	**4,667**	**31,735**	**2,873**	**31,481**

	2012		2011	
	Income	Expenses	Income	Expenses
Islamic Development Bank, Saudi Arabia – Shareholder	-	582	-	553
Dubai Islamic Bank, UAE - Shareholder	-	-	-	-
Abu Dhabi Islamic Bank, UAE – Shareholder	-	344	-	418
BBI Leasing and Real Estate d.o.o. - other	198	509	84	121
Total	**198**	**1,435**	**84**	**1,092**

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

30. Related-party transactions (continued)

Directors` and executives` remuneration

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

	2012	2011
Salaries	470	471
Taxes and contributins on salaries and other income	348	301
Additional bonuses	102	40
Total	**920**	**812**

Compensation of the Supervisory Board at 31. December2012 were paid in amount of 76 thousand EUR (2011: 76 thousand EUR) and consists the net amount of the compensation.

31. 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.

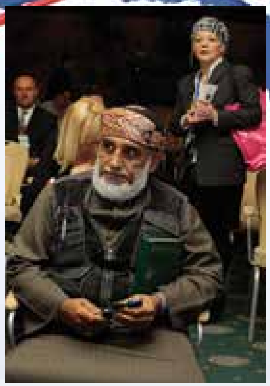
PROJECTS PRESENTED AT SBF 2012

138 projects, valued 8.5 billion Euros

TOURISM:	**35 projects, valued 400,748 million Euros**
INFRASTRUCTURE:	**10 projects, valued 4.369 billion Euros**
ENERGY:	**18 projects, valued 2.7 billion Euros**
AGRICULTURE:	**24 projects, valued 330,880 million Euros**
INDUSTRY:	**16 projects, valued 119,423 million Euros**
FINANCE:	**5 projects, valued 8,5 million Euros**
EDUCATION:	**4 projects, valued 19.73 million Euros**
CONSTRUCTION:	**26 projects, valued 487,026 million Euros**

Business Delegations from 30 countries attended SBF 2012

The largest international investment conference, Third Sarajevo Business Forum was attended by business delegations from more than 30 countries of the world. Among others, present at the Forum were the delegations of Turkey, Kingdom of Saudi Arabia, United Arab Emirates, Qatar, China, Japan, Germany, Austria, Serbia, Croatia, F.Y.R. Macedonia, Kuwait, Jordan, etc.



BRANCHES

Bosna Bank International

SARAJEVO

Centrala - Trg djece Sarajeva bb,
phone: 033 275-225

BBI Centar - Trg djece Sarajeva 1,
phone: 033 275-177

Ferhadija - Trg fra Grge Martića 4,
phone: 033 253-920

Novo Sarajevo - Džemala Bijedića 2,
phone: 033 712-586

Ilidža - Rustempašina 31,
phone: 033 763-036

Info: **0800 200 20**

CAZIN
Dr. Irfana Ljubijankića bb,
phone: 037 510-103

SREBRENIK
1 marta bb
phone: 035 647-780

BIHAĆ
Husrefa Redžića 6,
phone: 037 329-617

MOSTAR
Braće Fejić 32,
phone: 036 555-710

BUGOJNO
Zlatnih ljiljana bb,
phone: 030 260-022

TEŠANJ
Maršala Tita bb,
phone: 032 656-770

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

KALESIJA
Trg Šehida bb,
phone: 035 610-090

GRADAČAC
H. Gradaščevića bb,
phone: 035 821-096

BRČKO
Bulevar mira 2,
phone: 049 235-940

VISOKO
Alije Izetbegovića 1,
phone: 032 730-241

GORAŽDE
Seada Sofovića Sofe br. 7
phone: 038/241-490

TUZLA
1. inženjerijske brigade 6,
phone: 035 300-860

ZENICA
Trg Alije Izetbegovića 67,
phone: 032 209-599

TRAVNIK
Bosanska 157,
phone: 030 547-030

www.bbi.ba

Unique Bosnian Bank

Bosna Bank International dd
Trg djece Sarajeva 1
Bosnia and Herzegovina
www.bbi.ba
Phone: ++ 387 33 275 198
Fax: ++ 387 33 203 122