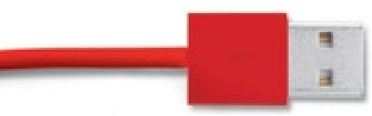
UniCredit

Clear answers for real benefits.

2012 Consolidated Reports and Accounts

UniCredit



Customer testimonials are the common thread of this year's annual report to illustrate the concrete solutions we provide every day. These true stories were told first-hand and collected by the colleagues who worked with them to offer real benefits.

Each story lends an authentic voice of how we are having a positive impact on our stakeholders. We are making a difference by recognizing everyday challenges and opportunities, and by contributing to the economic, social and cultural well-being of the communities we serve.

This report's creative concept reflects our commitment by displaying two pieces that fit together. This represents the union between the real-life needs of our clients and the practical solutions that we offer.

Above all, we believe that being a commercial bank means engaging in meaningful dialogue with those with whom we come into contact. This enables us to provide simple, quick and effective responses that perfectly meet customer needs.

Inside you will find some of these stories. We hope the next one will be yours.

2012 Annual Report

LISTENING

Making a difference from anywhere, even in a taxi

> *“One day while driving my taxi, I struck up conversation with my passengers and found out they worked at UniCredit.*
> *I told them that I was one of their customers and that I owned a fleet of taxis.*
> *I also explained that I was trying to expand my business and had asked for a loan, but had yet to learn if my request was successful.*
> *The next day one of them called me to follow up with the information I needed. She cared about helping me solve my problem, and I could not have been more satisfied with her support.*
> *I thanked her and said that if she ever needed a taxi in Vienna - even to Milan - I would be there for her, as she was for me.”*

Taxi driver, customer of UniCredit Bank in Vienna

Contents

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

Director's report

BERISLAV KUTLE
Director

" The Bank bases its success on a continual increase of quality of service and creation of products adjusted to the requirements of financial markets, where the client is placed in the centre of our operations as we endeavour to be the client's true partner and to respond to the client's needs. "

Respected clients, business partners and shareholders,

Turning back to the year behind us, I can say with certainty that UniCredit Bank d.d. (the Bank) achieved the result demonstrating we are ready to adjust to constant changes to the market and satisfy high expectations of our clients, placing them at all times into the focus of our business activities. Understanding of real life needs of individuals, companies and local communities is in the centre of the professional dedication of a highly qualified team of employees of the Bank, who provided concrete answers and true advantages to the challenges our clients are facing nowadays. By our commitment to the creation of the top quality service and excellence in building a long-term relationship with the clients, we have made visible steps forward over the past year and surely are entering stronger in the New Year.

In 2012, the Bank saw a net profit of KM 53 million, which reflects our continuous self-sustainable growth and development in various segments of business whist maintaining enviable cost efficiency at the same time. We managed to retain the balance between cost management and introduction of instruments for technical-technological modernization, which added more quality to our relationship with the clients. We are truly aware that we manage to retain the trust and high level of satisfaction of our clients only by continuous innovations.

The Bank's assets show the stability of value of KM 3.744 million, whilst total net loans amounted to KM 2.282 million with the corresponding growth of 2.3% in comparison to that of the previous year. As for the deposits of clients, we are closing the year with the amount of KM 2.654 million.

A strong capital base confirmed by numbers clearly shows a strong capacity of the Bank: total capital is in the amount of KM 523.5 million with a growth of 11.3% in comparison to that of the previous year. The capital adequacy of 16.5% corroborates a clear approach in the business operations of the Bank. The ratio of net loans and deposits is 86%, which additionally confirms stability and self-sustainability of our business operations by financing credit activities from our own sources.

Such results are joint work of all employees of the Bank, individual professional engagement and a high level of personal endeavours, which was not easily achieved taking into consideration such a demanding economic and political environment in Bosnia and Herzegovina. Therefore, continual education of our employees, the creativity, team work and excellence in delivery are placed highly within our business strategy.

The Bank bases its success on a continual increase of quality of service and creation of products adjusted to the requirements of financial markets, where the client is placed in the centre of our operations as we endeavour to be the client’s true partner and to respond to the client’s needs. With the service model that provides a segment approach to each and every client, along with the simplicity and efficiency of service provision, the Bank enjoys the reputation of a sound and reliable partner in the market of Bosnia and Herzegovina.

As a proponent of positive changes to the field of conservation and environment protection, the Bank continues performing a host of activities dedicated to education and raising ecological awareness, primarily with the employees of the Bank since we believe that starting with our everyday behaviour we are able to bring about positive changes to our environment.

Taking this as our obligation to the citizens of Bosnia and Herzegovina, the Bank got involved and organized drives of re-forestation, cleaning and landscaping of the towns of Bosnia and Herzegovina. Such a role of a socially sensitive “good, corporate citizen“ we took over the past year also through the cooperation with UniCredit Foundation through with we helped with eleven projects of social entrepreneurship and protection of children in Bosnia and Herzegovina.

Finally, I would like to thank to our clients, business partners and shareholders or their trust and loyalty and my special gratitude goes to all the employees of UniCredit Bank for their immeasurable commitment and contribution to the success of the Bank’s business.

We, in the Bank, will in the course of 2013 remain dedicated to generating of supreme values for our clients, employees, local communities and other interest groups whilst combining excellence with simplicity at all times.

Our long-term plans contain sustainable goals including the client satisfaction, commitment of employees and support to the overall growth and development of Bosnia and Herzegovina. We believe by achieving these goals successfully we accomplish our mission of a socially sensitive, self sustainable and profitable institution.

It is our duty to seize every opportunity in the following period for develop and enhance our business operations whist focusing on advisory and partner role to our clients, supporting their business goals and providing our wholehearted support to the development of Bosnia and Herzegovina.

It is in there we see the strength of UniCredit Bank in yet another challenging year ahead of us.

Respectfully yours,

Berislav Kutle
Director

Economic environment in BH

Macroeconomic Situation

Economic relations in Europe are characterised by consolidating of public finances and restricting of public debt, which makes it impossible to provide a fiscal contribution to the recovery of economic activities, while growing unemployment and drop of consumption have an adverse effect and slow down even the more powerful economies of the European Monetary Union (EMU). These effects are, both directly and indirectly, channelled to CEE countries, and to an even greater extent within the regional framework.

Characteristics of economic developments in this year indicate that deterioration, triggered by the external economic environment in the European countries with internal deficiencies, caused a severer adverse effect to the neighbouring countries and B&H. These features influenced negative values of export and industry production trends, resulting in the overall drop of economic activities in 2012

In view of the near future trends, it is clear that cross-border assumptions depend significantly on the results of the short- and long-term measures in EMU and EU countries, which will result in substantially lower growth rates compared to potentials, but with improved values of the economy growth in CEE countries compared to this year. We may say that tendencies still remain subject to risks of possible external deterioration, as well as to internal insufficient potential to compensate for negative effects from the external environment.

Gross domestic product: published economic indicators show that inherent internal economic deficiencies together with slowing down demand in Europe and neighbouring countries result in negative economic cycle in 2012 Despite of certain mitigation in negative figures of the industrial production and export after the first quarter of 2012, these data indicate a contraction of activities in the real economy sector, whereas export activities were reduced, as well. The nominal and real drop in the distributive trade confirmed low domestic consumption, which resulted from the high and growing unemployment, combined with moderate growth of wages. Exactly these economic indicators confirm the contraction character of the economic activities with the projected rate of the real GDP change to -0.9% in 2012

Consumer prices: consumer prices were influenced by oscillatory monthly developments, where the summer period was characterised by a deflation trend, primarily caused by anaemic personal consumption and in general by low purchasing power in the country, with seasonally greater drop of food product prices. But on the other side, prices of food and administratively managed prices contributed to lower inflation growth in September and October, but despite of this there was no considerable inflationary pressure, and the average inflation rate in 2012 reached 2.1% y/y.

Key macroeconomic indicators in BH

	2009	2010	2011F	2012F
Nominal GDP (BAM billion)	24.0	24.6	25.5	25.8
Population (in thousand)	3.842	3.843	3.840	3.838
GDP per capita (in BAM)	6.248	6.397	6.634	6.708
Real GDP (annual change, %)	-2.9	0.7	1.3	-0.9
Consumer prices (annual change, %)	0.0	3.1	3.1	1.8
Average	-0.4	2.2	3.7	2.1
Average monthly wage (annual, %)	8.4	1.0	4.4	2.0
Unemployment rate (registered, %)	41.5	42.9	43.3	44.1
Balance of budget (in % of GDP)	-4.4	-2.5	-1.3	-2.5
Balance of the current account of balance of payments (in % of GDP)	-6.2	-5.7	-9.6	-9.6
Foreign direct investments (in % of GDP)	1.5	1.5	2.1	3.1
Foreign currency reserves (in BAM billion)	6.2	6.5	6.4	6.5
FX rate EUR/BAM	1.96	1.96	1.96	1.96
1M EURIBOR, end of period	0.5	0.8	1.0	0.1
Average	0.9	0.6	1.2	0.3

Sources: BH Statistics Agency, CBBH, UniCredit Research, Chief Economist Projection for CEE (2012)

Industrial production: it is obvious that reduced import potentials of external markets, in particular of the neighbouring countries, which the foreign trade relations are the most intensive with, limit the growing trend of the industrial production. Limiting hydrological conditions have caused a drop of energy production, although there is growing demand for energy. Together with a drop in the processing industry and mining sector, the overall industry output was reduced by 5.3% y/y for the period January-November 2012

Foreign trade and current account of balance of payments: the foreign trade deficit has remained deep in negative values in this year, as well. The trend is affected by much greater value of import vs. export, which is further contributed by low cross-border demand, but also by insufficient export orientation of the country's economy. Although the negative values of export, which reached their lowest levels in the first quarter of 2012, were mitigated, the total drop of goods export in the period January-November 2012 amounted to 3.5% y/y, while import varied around zero change, with a slight drop of 0.2%. From the perspective of statistical changes in analysing the so called "lohn" deals, where goods remain in the same person's ownership, including a low share of these deals in the total export of services, this has affected the projection of this year's deficit in the current account of payments balance, whose projection is 9.6% vs. GDP, which is based on new and revised data of the previous year.

State Budget: budget-related data for the previous periods, as well as the result of official data issued by local institutions, indicate a slight growth of the fiscal deficit in this year compared to the previous one, despite of already implemented savings measures based on the executed Stand-by arrangement with the International Monetary Fund (IMF). This trend causes insufficient growth of revenues from indirect taxes collection, as well as the need for refinancing of liabilities which has occurred already in this year. Despite of growing fiscal deficit, it is clear that this macro-economical indicator still remains on the acceptable level, according to projections below 3% vs. GDP.

Stand-by arrangement with IMF and Credit rating: in late September 2012, the arrangement was signed with IMF in the value of SDR 338.2 million or approximately BAM 800 million (equivalent of 3.1% GDP), which was the same value of the paid-out tranches of the arrangement granted in 2009. This agreement is a kind of economic stability anchor and it requires mandatory implementation of structural reforms. After this arrangement was approved, two identical instalments were disbursed in the amount of SDR 50.7 million each, or approximately BAM 240 million. After Moody's Agency reduced the country's credit rating early in 2012, the same rating B3 was confirmed during July, while the future outlook was changed from negative to stable. This change was mostly supported by negotiations with IMF and indications of a more optimistic trend in EU accession process. Standard&Poor's confirmed their B rating and changed the outlook from negative to stable in late March 2012

Assessments by UniCredit: during 2013, a slight improvement is expected in the external environment, but including exposure to risks of impossibility to eliminate the obstacles for the full recovery in countries of the Eurozone and region. Within the real economy sector, a positive trend should be established based on energy production, which was limited by hydrological conditions in 2012 In general, we can say that projections of economic activity developments are far below the country's economy potentials for closing the gap vs. more developed European countries. Consolidation measures at all government levels and high amount of external debt repayment will certainly decrease the contribution of public spending to GDP dynamics, but investments into energy projects, high-ways, and border infrastructure may encourage a growth of economic activities. In the next year, personal consumption will remain limited due to high unemployment and drop of available income of the population, while inflationary pressure will remain at moderate levels. The key for inflation trends will be slightly lower base values from this year, although the limiting internal factors relating to a drop of wages, as well as external variability of oil product prices, on one side, and introducing of customs fees in the mid next year, may create premises for instability of consumer prices. Having in mind one of the lowest VAT rates (17%) in Europe, re-actualising of discussions on its increase, in order to substitute for lower indirect revenues from customs fees, may result in certain volatility of consumer prices. Compliance with undertaken liabilities to IMF is of special importance for keeping the existing credit rating approved by both rating agencies, with a potential mid-term improvement.

Economic environment in BH (CONTINUED)

Banking System Monetary Framework

Monetary policy: for a decade and a half, the strict policy of the Currency Board has been representing a stability anchor for the overall monetary and banking system, without any indicators of turbulences characteristic for the countries, which apply fluctuating currency rate policy. The consistent and strict implementation of this quite simple monetary policy results in the fixed rate of exchange of EUR 1 = BAM 1.95583, based on prudent maintenance of net FX reserves compared to monetary liabilities. A strong growth of FX reserves in the 3rd quarter of 2012 was encouraging, as this resulted in resistance to future cyclic developments in FX demand, which further guaranteed the long-term sustainability of the monetary policy.

Obligatory reserve: during 2012, there was no change of the obligatory reserve rate, whose framework was already liberalized at the beginning of the global crisis period. Consequently, the obligatory reserve rate for short-term deposits remained 10%, and for long-term deposits 7%. However, such more flexible approach to the only instrument of the monetary policy was still limited by strict regulatory framework on the liquidity in the Federation of BH, thus the amount of commercial banks' funds on the account of reserves with CBBH was growing starting from the mid 2012, which was further boosted by a lack of quality loan demand and low interest rate in the euro inter-bank market.

Banking Industry

Financial system in BH and the role of the banking sector: orientation to banks, as the key feature of the country's financial system, shows a tendency to deepen its banking basis due to decrease of activities in the leasing and microcredit sectors. Data available as of 3rd quarter 2012, excluding the sector of insurance, indicated that banks' assets made over 93% of the overall financial sector. Local markets were still characterized by a low level of liquidity in trading in equity securities, while the overall dynamics in FBH were improved by parallel issues of treasury bills and government bonds (BAM 130 million). The total turnover at Sarajevo Stock Exchange increased by 52.6% y/y, with the value of BAM 373.6 million, but equity securities made 9.6% of the overall trading volume. At the same time, the turnover at Banja Luka Stock Exchange dropped by 38.7% y/y, with the respective value of BAM 260.9 million, as a consequence of lower trading in shares, as well as a considerable drop in equity securities trading.

Regulatory framework of the banking sector: despite of the greater level of development of institutional regulation and supervision of banks compared to other segments of regulating the economy system in the country, further gradual improvement is necessary based on Basel II and Basel III standards, as well as consistent implementation of EU directives. The most significant change introduced in 2012 was caused by the set of laws regulating protection of consumers/users of financial services in RS, while legislative bodies in FBH also initiated the procedure of adopting these laws in late 2012 Limitations in the application are due to absence of the reference interest rate – pursuant to the Currency Board monetary policy, CBBH does not define any reference interest rate, and the inter-bank money market is underdeveloped, with no IR offer for the domestic currency. Despite of constant efforts, there is still no liberalisation of the strict framework defining minimum standards of liquidity management. The need for self-sustainability and application of modern regulatory framework causes relaxing of the banking system liquidity regulations (FBH), through recognizing stability of a'vista deposits.

Key developments in the banking sector: despite of the system restrictions, the banking industry continues with profitability improvement, but at lower rates compared to the previous year. This has been predominantly caused by „cleaning" of the credit portfolio in the previous periods, as well as implementation of IAS 39 in the Federation of BH, which has triggered the trend of cutting down the provisioning costs in this year. This result was achieved despite of the

NPL portfolio growth to 12.7% in late September 2012 Exactly these system restrictions of the slowed down economy and drop of the loan demand, especially in the Federation of BH, were reflected in reduced interest and non-interest income, resulting in a two-digit drop of the gross operating profit in the first three quarters of 2012 Out of the total number of banks in the country, 25 banks generated profit, while 3 banks generated losses.

Application of the conservative business principle in the BH banking sector and improvement of the risk management process resulted in further enhancement of the security and profitability of the overall business. At the year end, there were 28 active banks in the country (18 in FBH and 10 in RS), that is one institution less than one year ago. It was a consequence of winding up of a bank which was under receivership administration for more than 10 years, while there is one more bank in the process of receivership, which has been taking place for a long period of time. The security of the banking system has been confirmed by the capital adequacy ratio of 16.7% as of the end of September 2012 Due to the generated profit, it is clear that the capital adequacy ratio will be further improved.

By analyzing key balance sheet positions of the banking industry, we find extremely opposite trends in the country's entities, a drop and stagnation of banking business in FBH and growth in RS. A modest increase of assets compared to the end of last year was encouraged by the total capital growth and increased retail deposits, with a drop of the overall deposits due to decreased corporate deposits.

According to CBBH statistic data, at the end of 2012, the banks' credit activity was increased by 4.1% y/y, with a stronger growth of corporate loans, i.e. 6.3%, vs. retail loans growth of 1.3%. The overall lending showed a much greater growth in RS, due to which this entity contributed with more than 70% to the total credit volume growth, whereas the corporate lending expansion was driven by credits to the government sector. Deposits showed a positive annual development of 2.6%, as a consequence of the 8.5% growth of retail deposits, while corporate sector deposits dropped by 4.5%.

Assessment of fundamental developments 2013: despite of the slow and fragile improvement of the macroeconomic framework, the next year will be characterized by challenges of operating in restrictive both external and internal economic environment, which has been present for a long time. The banking industry will maintain its high level security with a strong capital base and overall capital adequacy ratio far above the regulatory minimum standards, with a certain growth of values compared to this year. By keeping developed business principles in the previous two years, profitability of the sector in general should remain stable, while profit values will demonstrate more considerable slowing down with the level reached this year. Generating of revenues in the banking sector is limited by a certain decrease of interest spread, which has occurred already in this year. In the conditions of low market reference interest rates, the high level of general liquidity in FBH, defined by strict regulatory requirements, limits the growth of interest rates for commercial banks' deposits kept with monetary authorities and foreign institutions. By complying with the business system framework, lending activities will be characterized by a moderate development, with one-digit growth rate of the loan portfolio. The trend of deposits will be to a certain extent affected by the Stand-by arrangement pay out dynamics, as well as by developments of both general and local authorities' deposits.

PLANNING

Customer care that crosses national boundaries

“Zagrebačka Banka helped me to resolve my personal and professional financing challenges. I previously worked in Zagreb, where I lived in a rented apartment. When I found another job in my hometown of Split, the bank helped me to secure a state-subsidized loan that allowed me to move back and buy a house.
My personal banker was highly skilled and engaged, and my loan application was processed quickly and approved immediately.”

Goran Dlaka,
customer of Zagrebačka Banka in Croatia

Business Description

UniCredit Bank d.d. is a licensed commercial bank headquartered in Bosnia and Herzegovina.

The Bank provides the full range of financial services to companies and individuals in Bosnia and Herzegovina.

The Bank has over 900.000 retail clients and more than 3.600 of corporate clients.

The full set of banking services provided by the Bank, includes corporate banking, retail banking, financial institutions, international operations, investment banking.

The Bank readily and actively participates in the implementation of new developments in the banking sector and contributes through its active engagement to the promotion of an innovative approach in the form of more transparent communication, reporting, application of standards and sharing of know-how gained from the rich pool of experience of the Group the Bank belongs to.

Map of the Branch Network

Business Description (continued)

Retail segment

Organization

The retail segment offers a wide range of products and services to clients of personal, family and small business banking, and manages the branch network and direct channels of distribution.

Mass market clients are serviced by family bankers, while affluent segment includes the model of private bankers with personalized portfolios.

The Bank applies the SB banker service model for small business clients for the purpose of focusing on various needs and specific features of this client segment.

The business network is divided into 10 regions, which are further split into agencies located throughout Bosnia and Herzegovina, and as of the end of 2012, there were 87 such agencies.

Retail Banking has a portfolio of more than 900,000 clients.

Business in 2012

The business is client oriented, so that client's needs are recognised in a unique way, where continuous improvement of processes and services, which result in a more efficient and simple management of business relations, development of client business consulting through an individualised approach and a full range of Bank's products and services, continuously differentiate UniCredit Bank from its competitors.

According to 2012 surveys, clients once again demonstrated that they appreciate the unique quality of service and rewarded the Bank's focus on improvement of the client satisfaction.

Throughout the year, the Bank was investing into up-grading of efficiency and development of direct channels, whereas the number of new clients using these innovative channels, including electronic banking, was just a confirmation that the investments were justified.

As an innovative and modern Bank in the market, which follows trends and clients' needs, we would like to make our e-ba and m-ba services even more user-friendly for our new and future clients, and in this segment we constantly work on development and up-grading of applications, improvement of client experience, as well as introducing of additional functionalities, such as an option of e-payment order. At the same time, through special campaigns, we have enabled our e-ba and m-ba clients to carry out financial transactions under more favourable conditions. The Bank has developed a new SMS service model called sms-ba created for all clients who want to be informed in an efficient and simple way about their accounts' balances and changes.

In addition to banking products and services, the JES Package, as an anchor product of the Bank, also provides a range of non-banking services and benefits, thus enriching and facilitating the everyday lives and businesses of our clients, which have been recognized by over 95.000 satisfied users.

By using our know-how of clients' needs and requirements, this year, as well, we have focused on creating top-quality products and innovative solutions, which have up-graded the existing range of card products. A new card product has been introduced - MasterCard International debit card, linked to the card holder's FX account, enabling the client to access his/her FX account efficiently and easy, without queuing at the Bank's counters. Furthermore, for a special client target group, the Bank has introduced the Golden MasterCard debit card, linked to the card holder's current account. This card is intended to affluent clients, whose loyalty and trust the Bank wants to reward. Apart from this, following the trend of shopping via the Internet, the Bank has developed its e-commerce service for acquisition of payment cards as a method of non-cash payment at Internet Points of Sale, thus enabling web shops to sell goods and services in a protected environment, and customers to use their cards safely in order to pay for goods and services on the Internet.

Expansion of the ATM network was continued in 2012, and with the total number of 244 ATMs, we have the most extensive and developed network of ATMs in BH, providing our clients with an option of 24/7 fast and simple access to their accounts (account balance check-up, cash pay-out/pay-in, buying pre-paid mobile phone credits).

At every step of the way forward, we endeavour to strengthen our reputation as a dynamic and modern bank following market demands, considering the needs of our clients, and we continue in our efforts to be the No.1 bank in the eyes of our clients.

Corporate and Investment Banking Sector

Corporate and Investment Banking Sector includes:

- Large Enterprises Segment
- Medium Enterprises Segment
- Global Transactional Banking
- Markets, Financing and Advising

The fundamental criterion in determining the appropriate segment for a client is the size of the total income generated over the previous financial years. Other segmentation criteria include the type of ownership (state- or private-owned) and membership in a group of related companies (in which case segmentation depends on the total revenues of the group).

Large Enterprises Segment includes:

- Local and foreign companies with the total income ≥ BAM 30 million (for groups ≥ BAM 40 million)
- Legal entities whose ownership structure includes a cross-border component, e.g. GAM[1] and CBBM[2] clients, members of the groups with consolidated income ≥ BAM 40 million;
- Governmental institutions, state, cantons, institutions financed by the state and cantons, banks, insurance companies, non-banking financial institutions, Sarajevo Canton municipalities, embassies, consulates.

The Large Enterprises Segment consists of three business centers (BC):

- Mostar BC for Large Enterprises,
- Sarajevo BC for Large Enterprises, and
- State Administration and Public Institutions BC.

Through these Business Centers, the Bank covers the entire country and manages day-to-day business relationship with around 800 key account clients.

Medium Enterprises Segment includes:

- Local and foreign companies with the total income between BAM 3 and 30 million (for groups ≥ BAM 40 million), including:
  - Lower Mid Companies: total income between BAM 3 and 10 million
  - Upper Mid Companies: total income between BAM 10 and 30 million
- Legal entities whose ownership structure includes a cross-border component, e.g. CBBM clients, members of the groups with consolidated income below BAM 40 million;
- Municipalities (except Sarajevo Canton municipalities) and all institutions set up by a municipality or belonging to its competence (local communities, social care centers, Red Cross etc.), educational institutions (schools, faculties, etc.).

1 Global Account Management
2 Cross Border Business Management

Medium Enterprises Segment operates through seven business centers (BC):

- Mostar BC
- Sarajevo BC
- Republika Srpska BC
- Una-Sana Region BC
- Central Bosnia BC
- North-East Bosnia BC
- West Herzegovina BC

Through these Business Centers, the Bank covers the entire country and manages day-to-day business relationship with around 2800 medium enterprises.

Markets, Financing and Advising

The organizational unit is divided into three segments: Trading, Corporate Treasury Sales, and Financing and Advising. In 2012, this unit internal organization was changed by transforming the Investment Banking Department into Financing and Advising, for the purpose of making BH companies more familiar with complex products and services in the field of Investment Banking.

Business in 2012

Through synergy of our teams, we managed to adapt to constant market changes and high client expectations. By participating, as partners, in commercial transactions of the state and companies in all industry branches, we managed to provide the level of our service in line with the business expectations and needs of our clients, applying the unique approach in BH market.

We guarantee our clients a full range of high quality, reliable products and services. This is confirmed by the results of the client satisfaction surveys, which have been better year after year.

The macro-economic environment remains challenging, but there are still opportunities for business growth and expansion, using the strength of UniCredit Group and respecting the unique character of the local market, we ensure an integrated approach to solutions, improve the quality of products and services, up-grade efficiency and remain easy to deal with.

By putting continuous efforts and fostering of business innovation, we want to achieve strong commitment and stay close to our clients in order to realise mutually set goals.

Financial Overview and Business Performance

	31 December 2012	Restated 31 December 2011
	BAM '000	BAM '000
Financial indicators:		
Total income	200,084	204,737
Profit before provisions	81,572	82,891
Profit before tax	59,936	56,693
Profit for the year	53,450	49,984
Equity	523,493	470,306
Loans and receivables from clients	2,281,857	2,231,431
Current accounts and deposits of clients and banks	2,806,679	2,606,045
Total assets	3,744,194	3,530,819
Performance indicators:		
Capital Adequacy	16.5%	17.2%
Operating costs in total income	59.2%	59.5%
Return after taxation on equity (ROE)	10.7%	11.2%
Return before taxation on average total assets (ROA)	1.6%	1.6%

Overview of business operations of UniCredit Bank d.d.

In 2012, the Bank generated BAM 59.9 million profit before taxation, which is by BAM 3.2 million (5.7%) more than in the previous year. The profit after taxes for the year amounts to BAM 53.5 million and it is a 6.9% growth y/y.

The positive net result was achieved primarily due to growth of both corporate and retail loan portfolio, as well as better cost and process efficiency.

As of December 31st 2012, the total assets amounted to BAM 3,744 million, which represents a y/y increase of 6%.

Structure of the Bank income

The income generated by the Bank in 2012 amounted to BAM 200.1 million, which was BAM 4.7 million (2.3%) below the income generated in the previous year, as a result of a decrease in net interest income.

In the structure of the Bank total income, net interest income amounted to 68.3% (with a decrease of 1.5 pp in comparison to 2011); net fee and commission income amounted to 25.6% (with an increase by 1.4 pp in comparison to 2011), while other income made 6.1%.

Net Interest Income

The 2012 net interest income amounts to BAM 136.7 million, which is 4.4% drop y/y. The decrease of the net interest income is a result of 3.8% drop of interest income and 1.9% interest expenses.

The interest income is BAM 7.2 million below the previous year result, due to lower interest rates (decrease of market rates) compared to 2011

Interest expenses are decreased by BAM 0.9 million, as a result of lower interest rates compared to the previous year (banks' interest rates).

Net Fee and Commission Income

The net fee and commission income totalled BAM 51.3 million, which was BAM 1.8 million or 3.6% above the last year level.

An increase was reported in payment transaction fees, current account maintenance fees for retail and corporate clients, credit card fees, as well as fees for letters of credit and guarantees.

Net gains from financial instruments at fair value via P&L, foreign exchange and other income

Net gains from financial instruments at fair value via P&L, foreign exchange and other income in 2012 amounted to BAM 12.1 million, which was a 3% drop y/y. FX gains were decreased by BAM 1.1 compared to 2011, while other income was increased by BAM 0.7 million.

Operating Expenses

The 2012 operating expenses amounted to BAM 118.5 million, which was BAM 3.3 million or 2.7% below the previous year, as a result of efficient cost management, process optimization effects and reduced number of employees.

Personnel costs amounted to BAM 52.3 million and compared to 2011 it was a drop of BAM 0.9 million (1.6%), due to a decreased number of employees. Depreciation expenses amounted to BAM 14.1 million, which was BAM 1.2 million (7.8%) drop y/y.

The share of operating expenses in the total income of 2012 amounted to 59.2%, which was 0.3 pp below the previous year (2011:59.5%).

Impairment losses and provisions

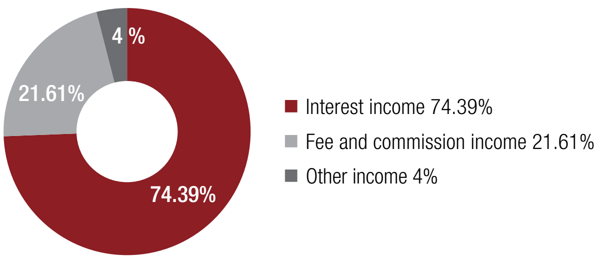
Total impairment and provisions costs amounted to BAM 21.6 million, and the same one are lower for 17,4% in comparison to 2011

Impairment losses on loans and receivables from customers amounted to BAM 23.8 million and this was BAM 1.3 million (6.0%) increase y/y. Net impairment of loans and receivables resulted from BAM 21 million new provisioning costs, out of which BAM 12 million for corporate loans, and BAM 9 million for retail loans, plus new costs of provisioning for the performing portfolio (BAM 2.8 million).

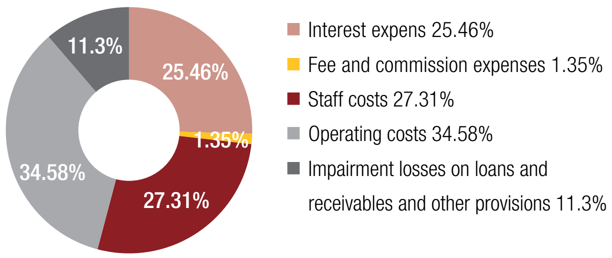
Other impairment and provisioning amounted to BAM 2.2 million of reversal expense, including off-balance sheet provisioning of BAM 0.6 million, reversal of provisioning for lawsuits of BAM 2.7 million and reversal expense of other assets of BAM 0,1 million.

Income and Expenses Structure

Structure of income



Structure of expenses



Assets and Liabilities

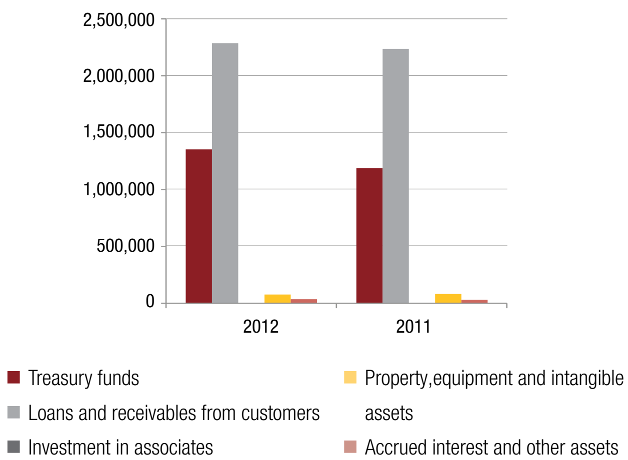
Assets

As of December 31st 2012, the Bank's assets amounted to BAM 3,744 million, which represented a y/y increase by BAM 213 thousands (6%).

Despite of limitations in the real economy sector, the Bank has increased its domestic funding resources, as well as its lending activity, via a proactive approach, thus contributing to the total assets growth.

Assets structure

Assets structure (000) BAM



The above chart shows the assets structure as well as trends in 2012 and 2011.

Treasury funds

Asset and liability management funds were increased by 13.8% compared to the previous EOY. These assets represented 36% of total assets, which was a 2.5 pp growth in comparison to the end of the previous year.

In comparison to 2011, obligatory reserve and cash and cash equivalents with the Central Bank, as well as investments into debt securities were increased, while loans to and receivables from banks were decreased. The change was a consequence of optimising the structure in terms of liquidity and profitability, while complying with the risk appetite.

Debt securities available for sale show an increase by BAM 61.6 million vs. 2011, as a result of investments in treasury bills of the Republic of Croatia, treasury bills of RS and FBH, as well as investments in bonds of the FBH.

Throughout the year, the Bank maintained its liquidity position well above the statutory limits.

The following table presents the structure of funds in the competence of Asset and liability management:

Loans and receivables from customers

Loans and receivables from customers were increased in 2012, despite of the economic slowdown and deterioration of the market's credit activity. Net loans from customers totalled BAM 2.282 million, which represented a y/y increase of BAM 50.4 million (2.3%).

In the Bank's total assets, net loans and receivables from customers participated with 60.9%, (a decrease of 2.3 pp in comparison to 2011). Retail loans had a higher share in net loans and receivables (55.3%), decreasing this year in favour of net loans to corporates and state by 0.9 pp.

Gross loans to corporates and state were increased by 3.9% this year, while retail loans were increased by 1.4%.

Participation of gross retail loans in the total loan portfolio amounted to 52.9%, which was a 0.6 pp drop in comparison to end of 2011 The largest portion in the overall retail loans portfolio referred to long-term all-purpose loans (61.8%), followed by long-term housing loans (22.7%) and receivables based on current accounts (8.6%) and credit cards (5.6%).

	31 December 2012	31 December 2011
Cash and cash equivalents	34.8%	23.9%
Obligatory reserve with CBBH	17.5%	19.2%
Investments and loans to other banks	37.8%	50.8%
Debt securities	9.9%	6.1%
Total	**100%**	**100%**

Loans and receivables from customers

	2012	Restated 2011	Change %
Gross loans:			
Corporate	1,200,658	1,155,402	3.92%
Retail	1,348,098	1,329,557	1.39%
Total	**2,548,756**	**2,484,959**	**2.57%**
Provisioning			
Corporate	180,882	178,916	1.10%
Retail	86,017	74,612	15.29%
Total	**266,899**	**253,528**	**5.27%**
Net loans:			
Corporate	1,019,776	976,486	4.43%
Retail	1,262,081	1,254,945	0.57%
Total	**2,281,857**	**2,231,431**	**2.26%**

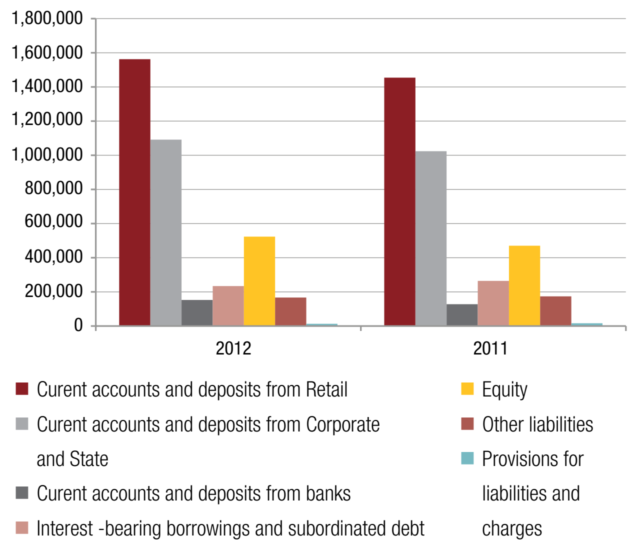
Gross loans to corporates and state were increased y/y by BAM 45 million or 0.6 pp of the total loan portfolio.

Long-term loans made 60% of the total gross loans, while short-term loans made 36.6%, and receivables under corporate accounts 3.4%.

Liabilities

Changes in the structure of liabilities and 2012 trends are presented in the following chart.

Liability structure (000) BAM

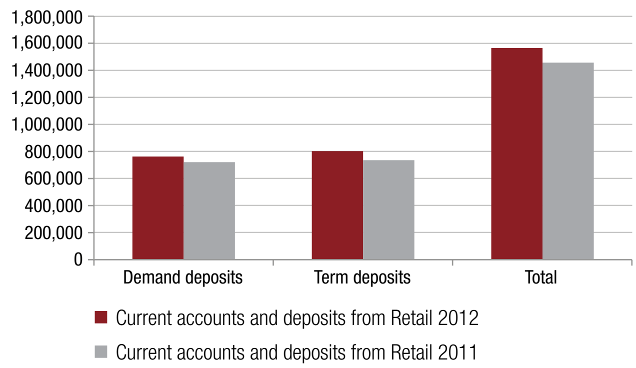


Current accounts and deposits from customers

Total current accounts and deposits from customers in 2012 were increased by BAM 175.8 million (7.1%) in comparison to the end of the previous year, and amounted to BAM 2,653.9 million. Local currency deposits made 53% of the total deposit portfolio (vs. 49.7% in 2011).

Retail deposits made 58.9% of the total year-end deposit portfolio. In y/y terms, their volume rose by BAM 108.1 million (i.e. 7.4%). This portfolio included 51.3% term-deposits and 48.7% demand deposits. Compared to 2011, the deposit ratio shifted in favour of term deposits, which rose by 0.8 pp.

Current accounts and deposits from Retail

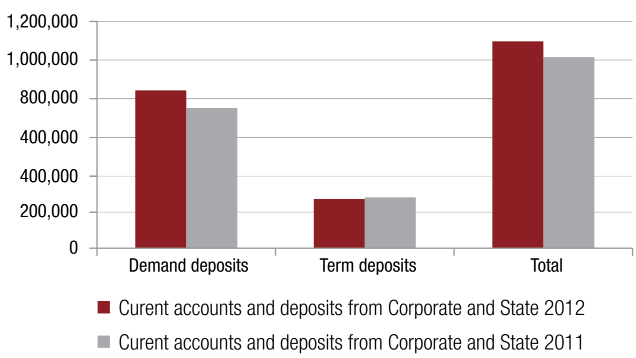


Current accounts and deposits of corporate clients and state were increased by BAM 67.7 million (6.6%) and amounted to BAM 1,091.4 million, which was 41.1% of the total client deposits.

In terms of structure, they are divided into demand (76.5%) and term deposits (23.5%). Compared to 2011, the deposit ratio shifted in favour of demand deposits (growth by 2.2 pp).

Current accounts and deposits of banks amounted to BAM 152.7 million, which was a 19.4% growth y/y.

Current accounts and deposits from Corporate and State



Interest-bearing borrowings

Interest-bearing borrowings decreased in comparison to 2011 by BAM 30.3 million (12.4%) while subordinated debt decreased by BAM 0.1 million. Subordinated debt matures completely in 2015.

The Bank used interest-bearing loans from FBH Development Bank (LDP and IBF), KfW[3], EBRD[4], Bank Austria, Bank Pekao, EFSE[5], HBOR[6], EIB[7], Odraz (World Bank funds).

3 Kreditanstalt für Wiederaufbau
4 European Bank for Reconstruction and Development
5 European Fund for Southeast Europe
6 Hrvatska banka za obnovu i razvoj
7 European Investment Bank

In 2012, the Bank used funding resources from EBRD, under Energy Efficiency credit line, and Odraz Sarajevo, and loans regularly refunded in accordance to repayment plan.

Credit lines made 6.3% of the Bank's overall funding resources, which was 1.3% pp drop compared to the previous year.

Equity

Bank's equity totals BAM 523.5 million or BAM 53.2 million more than at the end of 2011, as a result of including the current year profit into Bank's reserves.

Equity makes 14% of the total funding (0.7 pp growth in comparison to the end of 2011).

The capital adequacy ratio, presented according to the local regulator methodology, is 16.5%, which is significantly above the statutory limit.

The capital adequacy according to the Basel II methodology for 2011 is also significantly above the prescribed limit.

Key performance indicators

The profitability ratio ROE is 10,7% and it's below the last year's level (due to greater increase of equity vs. profit), while ROA is 1,6% and it's on the last year's level.

The efficiency indicator (cost to income ratio) is 59,2% and it's improved by 0.3 pp compared to the previous year, as a result of cost cutting by 2.7%.

Net loans to deposits are 86%, which indicates stability and self-sustainability, i.e. financing of loans from the Bank's own resources.

Profitability per employee (gross operating profit in relation to the number of employees) is 62,5 thousand and it has increased of 0,56 thousand compared to the previous year.

A bank account that’s always within a reach

FREEDOM

> *The Pekao24Mobile app is user-friendly, quick and efficient. It’s particularly handy when it comes to managing my account, such as checking my balance, following specific transactions and managing transfers or deposits. And its wheel-type interface is modern, eye-catching and very functional. I would say the app meets all my needs.*

Daniel Lipski, customer of Bank Pekao in Poland

Management and Corporate Governance

Pursuant to the provisions of the Law on Companies, Law on Banks, and Articles of Incorporation of UniCredit Bank d.d., Bank's managing bodies comprise: General Meeting of Shareholders, Supervisory Board and Management Board.

General Meeting of Shareholders

General Meeting of Shareholders is the Bank's supreme managing body. General Meeting of Shareholders consists of Bank's shareholders.

The General Meeting of Shareholders method of functioning and decision-making is regulated by the Rules of Procedure of UniCredit Bank d.d. General Meeting of Shareholders.

Audited financial statements will be submitted to the General Meeting of Shareholders for approval.

As of December 31st 2012, the Bank had 52 shareholders, the top shareholder was Zagrebačka banka d.d. Zagreb with 78.176 shares, which represented an equity stake of 65.59%.

Bank's share capital is established at the level of BAM 119.195.000 and it is divided into: 119.011 ordinary "A" class shares (with the face value of BAM 1.000 per share) and 184 preference "D" class shares (with the face value of BAM 1.000 per share).

An ordinary "A" class share gives its holder the right to have one vote at the General Meeting of Shareholders, the right to participate in the Bank's management as provided by the Articles of Incorporation, the right to participate in the Bank's profit in proportion to the face value of the share, as well as other rights foreseen by the Articles of Incorporation and the law.

A preferred "D" class share gives its holder the right of priority collection of dividend from the Bank's profit in proportion to the face value of the share as well as the right of priority collection in case of the Bank's bankruptcy or liquidation from the unallocated part of the bankruptcy/liquidation estate.

Supervisory Board

The Supervisory Board supervises Bank's operations and work of the Management Board, it shapes business policy, passes Bank's general by-laws, issues business and other policies and procedures, and decides on the issues defined by the law, Articles of Incorporation and Bank's other rules and regulations. The Supervisory Board consists of seven members elected to a four-year term by shareholders at the General Meeting of Bank's Shareholders.

The Supervisory Board method of functioning and decision-making is regulated by the Rules of Procedure of UniCredit Bank d.d. Supervisory Board.

Members of the Bank Supervisory Board as of December 31st 2012:

1. **Franjo Luković** / Chairman / Zagrebačka banka d.d., Zagreb
2. **Sanja Rendulić** / Deputy Chairman / Zagrebačka banka d.d., Zagreb
3. **Miljenko Živaljić** / Member / Zagrebačka banka d.d., Zagreb
4. **Damir Krcivoj** / Member / Zagrebačka banka d.d., Zagreb
5. **Marko Remenar** / Member / Zagrebačka banka d.d., Zagreb
6. **Mario Agostini** / Member / UniCredit Bank Austria AG, Beč
7. **Helmut Franz Haller** / Member / UniCredit Bank Austria AG, Beč

Bank Management Board

The Management Board organises operations and governs the Bank's business.

The Management Board is composed of the director (CEO) and executive directors, appointed by the Supervisory Board to a four-year term, with prior consent of the Banking Agency of the Federation of Bosnia and Herzegovina.

The CEO chairs the Board, manages the business, represents the Bank and bears responsibility for the Bank's lawful operations.

The Management Board method of functioning and decision-making is regulated by the Rules of Procedure of UniCredit Bank d.d. Management Board.

As of December 31st 2012, the Bank Management Board comprised the following members:

1. **Berislav Kutle** / Chief Executive Officer
2. **Hrvoje Lovrić** / Executive Director for Retail Banking
3. **Alek Bakalović** / Executive Director for Corporate Banking
4. **Dalibor Ćubela** / Chief Risk Officer
5. **Gordan Pehar** / Chief Financial Officer
6. **Alen Tarabić** / Executive Director of Global Banking Services

Audit Committee

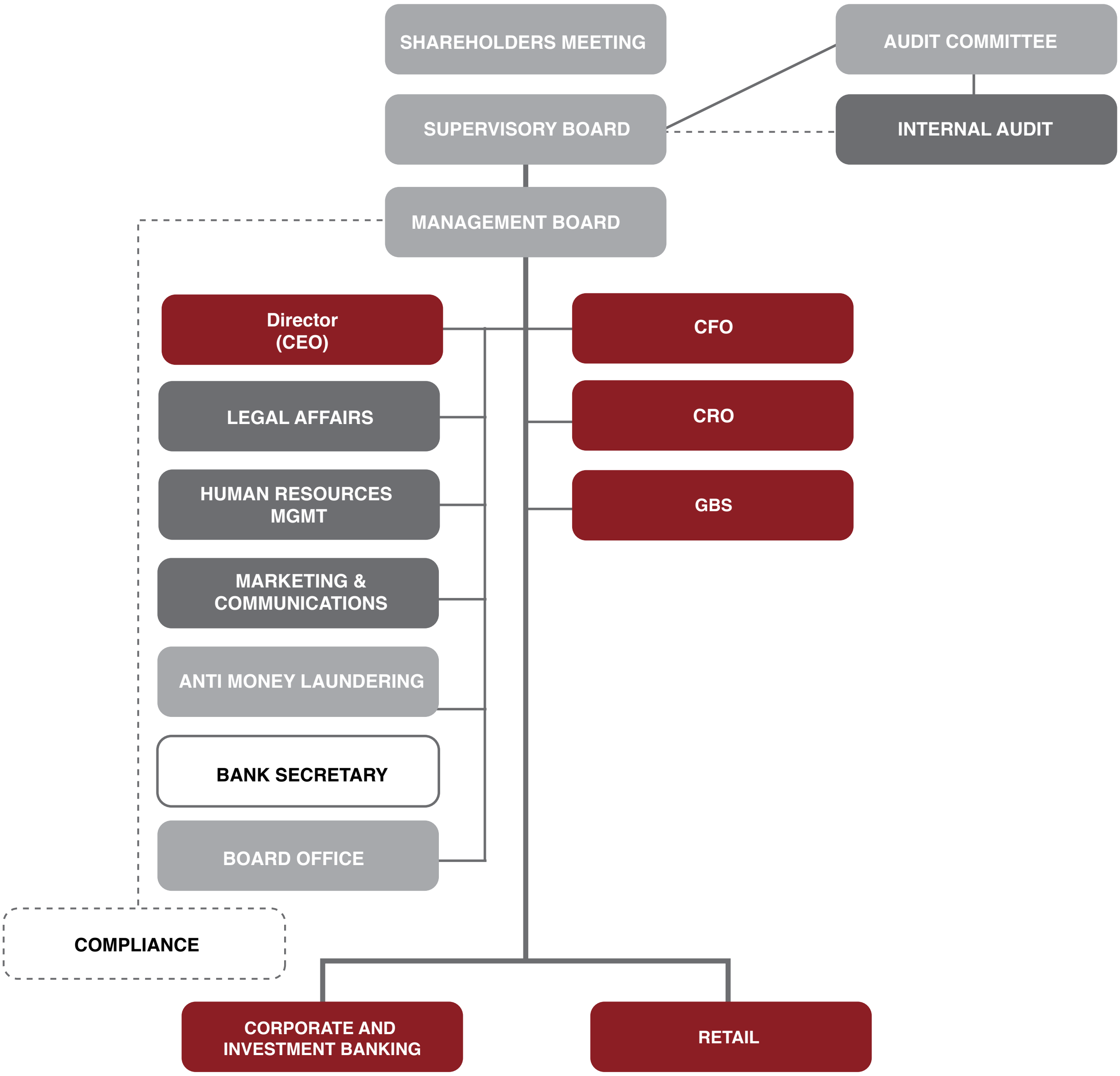
The Audit Committee supervises the work of the internal audit, including appointment of an external audit company which will carry out an audit of the annual financial statements. The Audit Committee has 5 members who are appointed by the Supervisory Board for a period of 4 years.

The Audit Committee method of functioning is regulated by the Rules of Procedure of UniCredit Bank d.d. Audit Committee.

As of December 31st 2012, members of the Audit Committee were as follows:

1. **Danimir Gulin** / Chairman
2. **Marijana Brcko** / Member
3. **Hrvoje Matovina** / Member
4. **Christian Pieschel** / Member
5. **Angelika Glavanovits** / Member

UniCredit Bank d.d. **Organisational Structure** as of December 31st 2012 - Key Organisational Units of the Bank:



Employees

At the end of 2012, the Bank employed 1,305 persons.

Our goal is to have the highest quality human resources on the market, as well as to maintain the best-employer brand. We want to be the Bank that all employees perceive as an employer of choice, where every employee has an opportunity to achieve and realise his/her potential in accordance with his/her own competencies. This goal is achieved through constant care for all employees and the quality of working conditions, through investing in the development of employees aiming at maximum utilisation of our human resources.

Rewarding employee performance

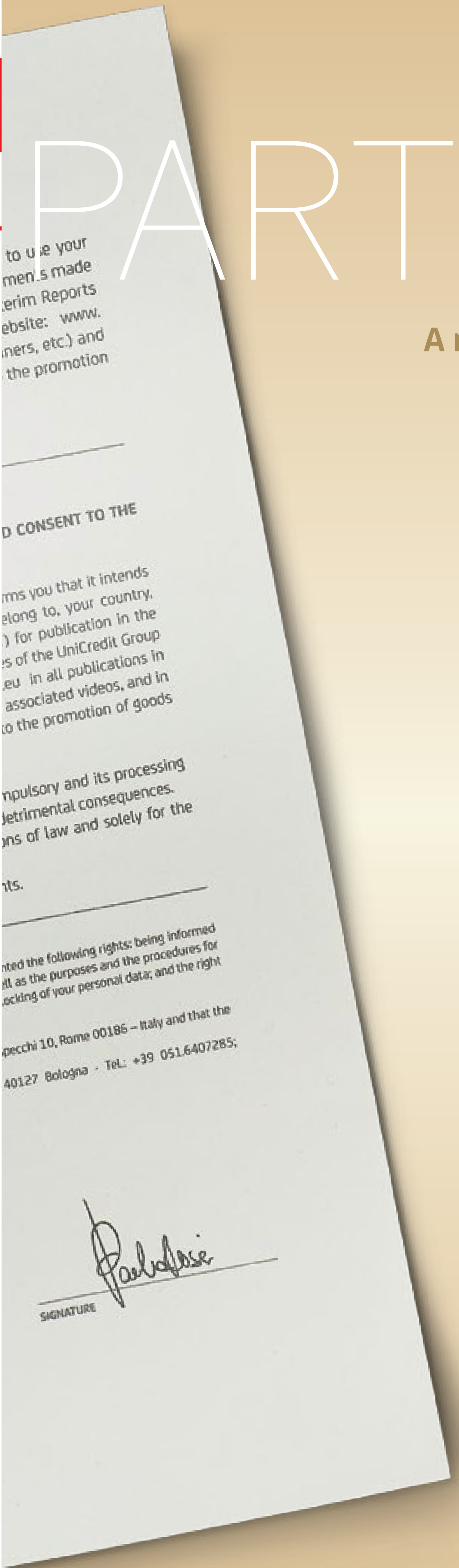
Rewarding employees of UniCredit Bank d.d. is implemented through the MBO (Management by Objectives) system, which rewards leadership, as well as through the performance management system, with specific goals set for each employee, followed by an evaluation of the results in compliance with the set goals, to determine the corresponding reward.

1,208 employees were rewarded within the MBO system and performance management system based on the results achieved in 2011.

Top shareholders

As at December 31st 2012, the Bank had the following shareholder structure:

1	ZAGREBAČKA BANKA D.D. ZAGREB	65.59%
2	UniCredit Bank Austria AG	24.40%
3	International Finance Corporation (IFC)	5.73%
4	UNICREDIT, SOCIETA' PER AZIONI	3.27%
5	Other shareholders	1.01%



PARTNERSHIP

A new, versatile and flexible, investment concept

HVB Private Banking Vermögensportfolio Flex Select is a new kind of joint investment with a long-term investment horizon. It is based on the idea that the customer and the Bank invest together in an investment fund ("Private Banking Vermögensportfolio Flex Select 70 PI"; launched by the capital investment company, Pioneer Investments KAG mbH, Munich). The Bank has injected €20 million of its own capital in the fund and through the joint investment both the Bank and its customers participate in the performance of the respective unit classes.

*Only the sales prospectus is binding, as well as the Key Investor Document, which you can receive free of charge in German from UniCredit Bank AG, Arabellastrasse 12, Munich.

Responsibilities of the Management and Supervisory Boards for the preparation and approval of the 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 applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. Management 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 to applicable legal requirements and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business.

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

Financial statements at pages from 28 to 119 were authorised by the Management Board on 23 April 2013 for issue to the Supervisory Board, and are signed below to signify this, on behalf of the Bank, by:

Berislav Kutle	Gordan Pehar
Director	Chief Financial Officer

Independent Auditor’s report to the shareholders of UniCredit Bank d.d.

We have audited the accompanying financial statements of UniCredit Bank d.d. (“the Bank”), which comprise the statement of financial position as at 31 December 2012, statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management Board’s Responsibility for the Financial Statements

Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

Auditors’ 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 about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG B-H d.o.o. za reviziju

23 April 2013

Registered auditors
Zmaja od Bosne 7-7A/III
71000 Sarajevo
Bosnia and Herzegovina

On behalf of KPMG B-H d.o.o. za reviziju:

Manal Bećirbegović
Executive Director

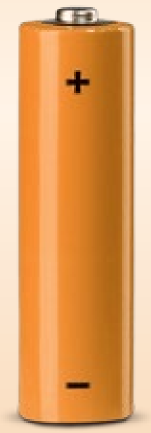
D.O.O. ZA REVIZIJU KPMG B-H SARAJEVO

Domagoj Hrkać
Partner, FBIH registered auditor
Licence number: 3070462100

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

RECHARGING

Supporting enterprise with concrete actions
UniCredit International



I own a small business that produces equipment for recycling precious metals. After winning a bid for a project with the Indian government last year, we were in need of a qualified partner to manage our complex operations abroad. UniCredit believed in us and our work, providing us with the initial warranty request, a letter of credit and the loans we needed. Thanks to their support, we successfully completed the project.

Paolo Balestri, Balestri impianti,
customer of UniCredit in Italy

Statement of comprehensive income

Statement of comprehensive income

For the year ended 31 December

	Note	2012 BAM '000	Restated 2011 BAM '000
Interest income	5	185,410	192,640
Interest expense	6	(48,745)	(49,676)
Net interest income		**136,665**	**142,964**
Fee and commission income	7	53,864	51,952
Fee and commission expense	8	(2,582)	(2,429)
Net fee and commission income		**51,282**	**49,523**
Dividend income	9a	10	9
Net gains on financial instruments at fair value through profit or loss and result from foreign exchange trading and translation of monetary assets and liabilities	9b	9,904	11,065
Net gains on investment securities	9c	47	-
Net losses from disposal of investment in associate	9d	-	(257)
Revenue		**197,908**	**203,304**
Other income	9e	2,176	1,433
Operating expenses	10	(118,512)	(121,846)
Impairment losses on loans and receivables from customers	17b	(23,793)	(22,451)
Other impairment losses and provisions	11	2,157	(3,747)
Profit before tax		**59,936**	**56,693**
Income tax expense	12	(6,486)	(6,709)
Profit for the period		**53,450**	**49,984**
Other comprehensive income, net of tax			
Net change in fair value of available-for-sale financial assets		(263)	285
Total comprehensive income for the period		**53,187**	**50,269**
Basic and diluted earnings per share (BAM)	29	449.41	420.26

Notes on pages 33 to 119 form an integral part of these financial statements.

Statement of financial position

Statement of financial position

As at

	Note	31 December 2012 BAM '000	Restated 31 December 2011 BAM '000	Restated 1 January 2011 BAM '000
Assets				
Cash and cash equivalents	*13*	469,272	283,193	621,329
Obligatory reserve with Central Bank	*14*	236,965	228,750	326,674
Loans to and receivables from banks	*15*	510,085	602,254	361,084
Financial assets available for sale	*16a*	133,415	71,809	41,529
Financial assets at fair value through profit or loss	*16b*	5	2	11
Loans and receivables from customers	*17*	2,281,857	2,231,431	2,124,680
Income tax prepayment		68	-	1,605
Other assets	*18*	35,554	31,281	35,530
Investment in associate	*19*	-	-	1,787
Property and equipment	*20*	58,867	63,521	66,073
Intangible assets	*21*	18,106	18,578	21,826
Total assets		**3,744,194**	**3,530,819**	**3,602,128**
Liabilities				
Current accounts and deposits from banks	*22*	152,745	127,887	128,304
Current accounts and deposits from customers	*23*	2,653,934	2,478,158	2,667,397
Financial liabilities at fair value through profit or loss	*16b*	4	1	9
Interest-bearing borrowings	*24a*	214,342	244,594	188,349
Subordinated debt	*24b*	19,710	19,773	23,672
Other liabilities	*25*	65,090	69,815	58,357
Issued debt securities	*26*	100,351	100,653	100,519
Provisions for liabilities and charges	*27*	13,097	16,320	14,487
Current tax liability		-	1,805	-
Deferred tax liability	*28*	1,428	1,507	997
Total liabilities		**3,220,701**	**3,060,513**	**3,182,091**
Equity				
Issued share capital	*29*	119,195	119,195	119,195
Treasury shares		(81)	(81)	(81)
Share premium		48,317	48,317	48,317
Fair value reserve		270	533	248
Regulatory reserves for credit losses		20,682	20,682	20,682
Retained earnings		335,110	281,660	231,676
Total equity		**523,493**	**470,306**	**420,037**
Total liabilities and equity		**3,744,194**	**3,530,819**	**3,602,128**

Notes on pages 33 to 119 form an integral part of these financial statements.

Statement of changes in equity

Statement of changes in equity

	Issued share capital	Treasury shares	Share premium	Fair value reserve	Regulatory reserves for credit losses	Retained earnings	Total
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Balance as at 1 January 2012	**119,195**	**(81)**	**48,317**	**533**	**20,682**	**281,660**	**470,306**
Total comprehensive income for the year							
Profit for the period	-	-	-	-	-	53,450	53,450
Other comprehensive income							
Change in fair value of AFS* financial assets	-	-	-	(292)	-	-	(292)
Deferred tax on AFS* financial assets *(Note 28)*	-	-	-	29	-	-	29
Total other comprehensive income	-	-	-	*(263)*	-	-	*(263)*
Total comprehensive income for the year	-	-	-	*(263)*	-	*53,450*	*53,187*
Transfer from retained earnings to regulatory reserve for credit losses	-	-	-	-	-	-	-
Balance as at 31 December 2012	**119,195**	**(81)**	**48,317**	**270**	**20,682**	**335,110**	**523,493**
Balance as at 1 January 2011	**119,195**	**(81)**	**48,317**	**248**	**20,682**	**231,676**	**420,037**
Total comprehensive income for the year							
Profit for the period	-	-	-	-	-	*49,984*	*49,984*
Other comprehensive income							
Change in fair value of AFS* financial assets	-	-	-	316	-	-	316
Deferred tax on AFS* financial assets *(Note 28)*	-	-	-	(31)	-	-	(31)
Total other comprehensive income	-	-	-	*285*	-	-	*285*
Total comprehensive income for the year	-	-	-	*285*	-	*49,984*	*50,269*
Transfer from retained earnings to regulatory reserve for credit losses	-	-	-	-	-	-	-
Balance as at 31 December 2011	**119,195**	**(81)**	**48,317**	**533**	**20,682**	**281,660**	**470,306**

** AFS stands for available for sale*

Movements in regulatory reserves for credit losses are explained in Note 3E.

Notes on pages 33 to 119 form an integral part of these financial statements.

Cash flow statement

Cash flow statement

For the year ended 31 December

	Note	2012 BAM '000	2011 BAM '000
Cash flow from operating activities			
Interest receipts		186,512	192,208
Fee and commission receipts		53,939	51,923
Interest payments		(50,486)	(50,788)
Fee and commission payments		(2,458)	(2,483)
Paid operating expenses		(106,275)	(102,965)
Net receipts from trading activities		9,949	11,063
Other receipts		2,177	1,432
Net cash inflow from operating activities before changes in operating assets and liabilities		*93,358*	*100,390*
(Increase)/decrease in operating assets			
Obligatory reserve with Central Bank		(8,280)	97,771
Loans to and receivables from banks		91,323	(234,490)
Loans and receivables from customers		(75,105)	(131,252)
Other assets		(5,877)	68
Decrease/(increase) in operating assets		*2,061*	*(267,903)*
Increase/(decrease) in operating liabilities			
Current accounts and deposits from banks		25,015	(531)
Current accounts and deposits from customers		178,340	(192,541)
Other liabilities		(3,926)	10,540
Net increase/(decrease) in operating liabilities		*199,429*	*(182,532)*
Net cash inflow/(outflow) from operating activities before income taxes paid		**294,848**	**(350,045)**
Income taxes paid		(8,409)	(2,820)
Net cash from/(used in) operating activities		**286,439**	**(352,865)**

Notes on pages 33 to 119 form an integral part of these financial statements.

Cash flow statement (CONTINUED)

For the year ended 31 December

	Note	2012 BAM '000	2011 BAM '000
Cash flow from investing activities			
Acquisition of property and equipment		(5,667)	(6,408)
Proceeds from sale of property and equipment		2,361	563
Acquisition of intangible assets		(5,765)	(3,509)
Receipts on redemption of AFS financial assets		87,267	22,227
Acquisition of AFS financial assets		(149,415)	(51,998)
Proceeds from the sale of associates	*19*	-	1,530
Dividend receipts	*9a*	10	9
Net cash used in financing activities		**(71,209)**	**(37,586)**
Cash flows from financing activities			
Repayment of subordinated debt		-	(3,912)
Proceeds from interest bearing borrowings		3,833	99,228
Repayment of interest bearing borrowings		(33,419)	(43,057)
Net cash (used in)/from financing activities		**(29,586)**	**52,259**
Net cash inflow/(outflow)		**185,644**	**(338,192)**
Effect of foreign exchange rate changes on cash and cash equivalents		435	56
Net increase/(decrease) in cash and cash equivalents		186,079	(338,136)
Cash and cash equivalents at the beginning of the period		**283,193**	**621,329**
Cash and cash equivalents at the end of the period	*13*	**469,272**	**283,193**

Notes on pages 33 to 119 form an integral part of these financial statements.

PEACE OF MIND

How to save a Customer's holiday

"When I lost my Visa card while on vacation abroad, UniCredit Bank's emergency cash disbursal service saved me from what could have been a disastrous situation.

I used the service twice while visiting Paris and Moscow and it exceeded my expectations, allowing me to pay for my hotel, entertainment and other expenses. I was impressed by the service's quality and speed – I was able to have cash in-hand in less than an hour.

This experience taught me that my bank is 100 percent prepared to support me at anytime, even in the most difficult of situations.

I know now that I can count on UniCredit's professional advice and real solutions for whatever I need."

Yurov Valeriy Anatolievich,
customer of UniCredit Bank in Ukraine

Notes to financial statements

1. Reporting entity and Basis of preparation

Reporting entity

UniCredit Bank d.d. ("the Bank") is a joint stock company incorporated and domiciled in the Federation of Bosnia and Herzegovina. The registered office is at Kardinala Stepinca bb, Mostar. The Bank provides a full range of services including retail and corporate banking and treasury operations. The Bank is a member of Zagrebačka banka Group (Zagrebačka banka d.d., a bank domiciled in Zagreb, Republic of Croatia, is its immediate parent company) and UniCredit Group, and provides services in Bosnia and Herzegovina. The ultimate parent company is UniCredit Bank SpA., a bank domiciled in Milan, Italy.

Basis of preparation

A) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements were authorised for issue by the Management Board on 23 April 2013 for approval by the Supervisory Board.

B) Basis of measurement

These financial statements have been prepared on a historical or amortised cost basis, except for financial assets and liabilities at fair value through profit or loss and debt securities available for sale which are stated at fair value.

C) Use of estimates and judgements

The preparation of financial statements in accordance with the IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, revenues and expenses. Actual results may differ from those estimates.

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

Information on amounts where significant uncertainty exists in their estimate and critical judgments in applying accounting policies that have the most impact on the amounts disclosed in these financial statements are disclosed in Note 3.

1. Reporting entity and Basis of preparation (CONTINUED)

Basis of preparation (CONTINUED)

D) Functional and presentation currency

The Bank's financial statements are presented in Convertible Mark ("BAM"), which is also the functional currency. Amounts are rounded to the nearest thousand (unless otherwise stated).

The Central Bank of Bosnia and Herzegovina ("Central Bank of BIH" or "CBBIH") has implemented a currency board arrangement aligning BAM to EUR at an exchange rate of EUR 1: BAM 1.95583, which prevailed throughout 2012 and 2011

2. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

A) Interest income and expense

Interest income and expense are recognised in profit or loss as they accrue using the effective interest rate method. Effective interest rate is the rate that discounts estimated future cash flows of financial assets or liabilities over the life of the financial instrument (or, if appropriate, a shorter period) to its net carrying value. In the calculation of effective interest rates the Bank estimates future cash flows considering all contractual terms, but not future credit losses.

Calculation of the effective interest rate includes all paid or received transaction costs, fees and points, which are an integral part of the effective interest rate. Transaction costs include all incremental costs incurred directly in connection with the issuance or acquisition of financial assets or financial liabilities.

Interest income and expense recognised in profit or loss include:

- Interest on financial assets and financial liabilities that are measured at amortised cost calculated using the effective interest rate method.
- Interest on debt securities available for sale calculated using the effective interest rate method.

B) Fee and commission income and expense

Fees and commissions that are an integral part of effective interest rates on financial assets and financial liabilities are included in interest income and interest expense.

Other fee and commission income includes fees which relate to credit card business, the issue of guarantees and letters of credit, domestic and foreign payments and other services, and are recognised in profit or loss upon performance of the relevant service.

Other fee and commission expense, mainly service and transaction fees, are recognised as an expense upon incurrence of services.

2. Significant accounting policies (CONTINUED)

C) Net gains on financial instruments at fair value through profit or loss and result from foreign exchange trading and translation of monetary assets and liabilities and net gains from investment securities

Net gains on financial instruments at fair value through profit or loss and result from foreign exchange trading and translation of monetary assets and liabilities include gains from foreign exchange trading, realised and unrealised gains and losses from derivative financial instruments and net gains and losses from the translation of monetary assets and liabilities denominated in foreign currency.

Net gains from investment securities include realised net gains from the sale of financial assets available for sale.

D) Foreign currency

Transactions in foreign currencies are translated into BAM at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into BAM at the reporting date at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss, except in the case of differences arising on non-monetary financial assets available for sale, which are recognised in other comprehensive income (at the reporting date the Bank did not have such assets). Non-monetary assets and liabilities in foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction and are not retranslated at the reporting date.

E) Financial instruments

Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued, interest-bearing borrowings and subordinated liabilities on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are recognised initially on the trade date, which is the date that the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Classification

The Bank classifies its financial assets in the following categories:

- loans and receivables,
- financial assets available for sale, and
- financial assets at fair value through profit or loss.

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments in the following categories:

- financial liabilities at fair value through profit or loss, and
- financial liabilities measured at amortised cost (other financial liabilities).

2. Significant accounting policies (CONTINUED)

E) Financial instruments (CONTINUED)

Classification (CONTINUED)

Management determines the classification of financial instruments at initial recognition and re-examines this designation where appropriate at each reporting date.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivable arise when the Bank provides money directly to a debtor with no intention of trading with the receivable or disposal in the near future. Loans and receivables include loans to and receivables from banks and loans and receivables from customers and obligatory reserves with the Central Bank of BIH.

(b) Financial assets available for sale

Financial assets available for sale are non-derivatives that are either designated in this category or not classified in any of the other categories. Financial assets classified as available for sale are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or equity prices. Financial assets available for sale include debt and equity securities.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt securities are recognised in profit or loss. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised in other comprehensive income and presented in the fair value reserve in equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

(c) Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss have two sub-categories: financial instruments held for trading (including derivatives), and those designated by management as at fair value through profit or loss at inception. A financial instrument is classified in this category only if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term, for the purpose of short-term profit taking, or designated as such by management at initial recognition (at the reporting date the Bank did not have such assets).

The Bank designates financial assets and financial liabilities at fair value through profit or loss when:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminated or significantly reduced an accounting mismatch which would otherwise have arisen; or
- the asset or liability contains an embedded derivative that significantly modified the cash flows that would otherwise be required under the contract.

Financial assets and financial liabilities at fair value through profit or loss include derivative financial instruments classified as financial instruments held for trading.

2. Significant accounting policies (CONTINUED)

E) Financial instruments (CONTINUED)

Classification (CONTINUED)

(d) Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not at fair value through profit or loss and include current accounts and deposits, issued debt securities, subordinated debt and interest-bearing borrowings.

Measurement

(a) Loans and receivables

Loans and receivables are initially recognised at fair value plus incremental costs. After initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment.

(b) Financial assets available for sale

Financial assets available for sale are measured initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequent to initial recognition available-for-sale financial assets are measured at fair value, except for equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are stated at cost, less impairment.

(c) Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are initially recognised at fair value. All transaction costs are immediately expensed. Subsequent measurement is also at fair value.

(d) Other financial liabilities

Other financial liabilities are initially measured at fair value including transaction costs. Subsequent to initial recognition the Bank measures other financial liabilities at amortised cost using the effective interest rate method.

Recognition of gains and losses on subsequent measurement of financial instruments

Gains and losses from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income until derecognition or impairment, when the cumulative amount previously recognised in other comprehensive income is transferred to profit or loss. Interest income calculated using the effective interest rate method is recognised in profit or loss.

Foreign exchange gains and losses on available-for-sale equity instruments are part of the fair value of these instruments and are recognised in other comprehensive income (at the reporting date the Bank did not have investments in available-for-sale equity securities denominated in foreign currencies). Dividend income on available-for-sale equity securities is recognised in profit or loss when the right to receive payment has been established.

Gains and losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss including foreign exchange gains and losses are recognised in profit or loss.

2. Significant accounting policies (CONTINUED)

E) Financial instruments (CONTINUED)

Identification and measurement of impairment of financial assets

a) Financial assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired (also for available-for-sale financial assets and financial assets measured at cost) includes:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that it would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for the financial asset because of financial difficulties;
- available data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified for the individual financial assets in the group.

The Bank reviews whether there is objective evidence of an impairment loss on loans and receivables or held-to-maturity investments (at the reporting date the Bank did not have held-to-maturity investments) for individually significant assets and for groups of similar assets.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively. Those individually significant assets which are not identified as impaired are subsequently included in the basis for collective impairment assessment. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics.

For the purposes of a collective evaluation of impairment for incurred but not reported losses (IBNR) and specific provisions calculated on a collective basis the Bank uses statistical models and historical data on the probability of occurrence that cause impairment, the time required to recover and total loss incurred, adjusted for management's judgment as to whether the current economic and credit conditions are such that it is likely that the actual losses will be higher or lower of those calculated by historical modelling. The Bank regularly reviews the loss rate and the expected rate of recovery at each reporting date, to ensure accurate reporting.

Impairment loss for financial assets measured at amortised cost is calculated as the difference between the carrying amount of the assets and the present value of expected future cash flows discounted at the original effective interest rate of financial assets valid at the time the asset became impaired.

2. Significant accounting policies (CONTINUED)

E) Financial instruments (CONTINUED)

Identification and measurement of impairment of financial assets (CONTINUED)

The carrying value of the asset is reduced through an allowance account and the amount of loss is recognised through profit or loss. If a loan and receivable or investments that are held to maturity have a variable interest rate, the discount rate for determining the impairment loss is the current effective interest rate determined at the time the asset became impaired.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit worthiness), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

When a loan is uncollectible, it is written off against the related impairment allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised as a reversal of impairment losses in profit or loss.

For the purposes of assessing capital adequacy and the recognition of special reserves within equity, in accordance with local regulations, the Bank also calculates provisions in accordance with the relevant regulations of the Banking Agency of Federation of Bosnia and Herzegovina ("the Agency" or "FBA"). In accordance with these regulations, the relevant placements are classified into appropriate risk groups, depending on the past due days, the financial position of the borrower and collateral; and are provided for at prescribed rates. The general provision, calculated in accordance with these regulations amounts to 2%.

b) Financial assets available for sale

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the investment below its acquisition cost is additionally considered in determining whether the assets are impaired.

If any such evidence exists for financial assets available for sale, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is subsequently recognised in other comprehensive income until derecognition of that asset.

2. Significant accounting policies (CONTINUED)

E) Financial instruments (CONTINUED)

Identification and measurement of impairment of financial assets (CONTINUED)

c) Financial assets carried at cost

Financial assets carried at cost include equity securities classified as available for sale for which there is no reliable measure of fair value. The Bank assesses at each reporting date whether there is objective evidence that a financial asset or such group of financial assets is impaired.

An impairment loss is calculated as the difference between the carrying amount of the financial asset and the present value of expected future cash flows discounted by the required market return for similar financial assets. Impairment losses on such instruments, recognised in profit or loss, are not subsequently reversed through profit or loss.

Derecognition

A financial asset is derecognised by the Bank when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. On derecognition of a financial asset the difference between the carrying amount of the asset, and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial assets available for sale and financial assets and financial liabilities at fair value through profit or loss are derecognised on the trade date.

Loans and receivables and other financial liabilities are derecognised on the date that they are transferred by the Bank or when the liability ceases to exist.

The Bank derecognises financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. 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.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

2. Significant accounting policies (CONTINUED)

E) Financial instruments (CONTINUED)

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument (closing bid). A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

The chosen valuation techniques make maximum use of market inputs, rely as little as possible on estimates specific to the Bank, incorporate all factors that market participants would consider in setting a price, and are consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The valuation models were initially developed by the parent bank or UniCredit Group.

The Bank determines the fair value of treasury bills using an internal valuation model which considers their remaining maturity and the latest available auction prices of equivalent instruments. Treasury bills are classified as financial assets available for sale.

The fair value of sovereign debt securities classified as available for sale is based on closing bid prices at the reporting date for securities traded on an active market or valuation techniques.

The fair value of non-exchange-traded derivatives is estimated by valuation techniques.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it tends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

2. Significant accounting policies (CONTINUED)

E) Financial instruments (CONTINUED)

Specific instruments

a) Derivative financial instruments

The Bank uses derivative financial instruments to hedge economically its exposure to foreign exchange risk arising from operating, financing and investing activities. The Bank does not hold or issue derivative financial instruments for speculative trading purposes. All derivatives are classified as financial instruments held for trading.

Derivative financial instruments including foreign exchange forward contracts and foreign exchange swap contracts that are initially recognised at trade date and subsequently measured at their fair value in the statement of financial position. Fair values are obtained from discounted cash flow models.

All derivatives are classified as financial assets at fair value through profit or loss when their fair value is positive and as financial liabilities at fair value through profit or loss when it is negative.

b) Cash and cash equivalents

For the purpose of preparation of the cash flow statement and statement of financial position, cash and cash equivalents comprise cash in hand, items in the course of collection and current accounts.

c) Loans to and receivables from banks and obligatory reserve with Central Bank of BIH

Placements with and loans to banks and obligatory reserves with Central Bank of BIH are classified as loans and receivables.

d) Loans and receivables from customers

Loans and receivables from customers are presented net of impairment allowances to reflect the estimated recoverable amounts.

e) Equity securities

Equity securities are classified as available-for-sale and carried at fair value, unless there is no reliable measure of the fair value, in which case equity securities are stated at cost, less impairment.

f) Debt securities

Debt securities are classified as available-for-sale financial assets.

g) Investment in associate

An investment in an associate (sold during 2011) was accounted for at cost less impairment.

2. Significant accounting policies (CONTINUED)

E) Financial instruments (CONTINUED)

Specific instruments (CONTINUED)

h) Issued debt securities

Bonds issued by the Bank are classified as other financial liabilities.

i) Current accounts and deposits from banks and customers

Current accounts and deposits are classified as other financial liabilities.

j) Interest-bearing borrowings and subordinated debt

Interest-bearing borrowings and subordinated debt are classified as other financial liabilities.

k) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable).

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

F) Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment losses. The cost includes all expenditure that is directly attributable to the acquisition of the items.

Subsequent cost is included in the asset's carrying amount or is recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is provided on all property and equipment except for land and assets not yet brought into use on a straight-line basis at prescribed rates designed to write off the cost to estimated residual value over the estimated useful life of the asset. The estimated useful lives are as follows:

	2012 No. of years	2011 No. of years
Buildings	50	50
Computers	4 -5	4 – 5
Equipment and motor vehicles	5 – 10	5 – 10

2. Significant accounting policies (CONTINUED)

F) Property and equipment (CONTINUED)

Amortisation methods, the useful lives and residual values of property and equipment are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount, and are included in profit or loss as other income or operating expense.

G) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. The cost includes all expenditure that is directly attributable to the acquisition of the items.

Intangible assets except for intangible assets not yet brought into use are amortised on a straight-line basis over their estimated useful lives as follows:

	2012	2011
	No. of years	No. of years
Software	5	5
Leasehold improvements	over the lease period	over the lease period
Other intangible assets	5	5

Amortisation methods, the assets' useful lives and residual value are reviewed, and adjusted if appropriate, at each reporting date.

H) Non-current assets and disposal groups classified as held for sale

Non-current assets or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Bank's accounting policies. Thereafter, the assets are measured at the lower of their carrying amount and fair value less cost to sell.

Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

At reclassification, on change of intent or if the conditions required by IFRS 5 cease to be applicable, the Bank does not restate comparative information in the statement of financial position. Upon reclassification the valuation is adjusted in accordance with relevant standards in the current period, as if the reclassification had not occurred.

2. Significant accounting policies (CONTINUED)

I) Income tax

The income tax charge is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred income taxes are recognised reflecting the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the reporting date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority.

Deferred tax assets and liabilities are not discounted and are classified as a non-current asset/liability in the statement of financial position.

Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each reporting date, the Bank reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets, which are reduced to the extent at which it is no longer probable that tax benefits can be used.

J) Impairment of non-financial assets

The carrying amount of intangible assets not yet brought into use and intangible assets that have an indefinite useful life (the Bank has no such assets), are tested for impairment and their recoverable amount estimated whenever events or changes in circumstances indicate that their carrying amount may not be recoverable, or at least annually.

Other non-financial assets (other than deferred tax) are tested for impairment and their recoverable amount estimated whenever there is indication that the carrying amount may not be recoverable. An impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

2. Significant accounting policies (CONTINUED)

J) Impairment of non-financial assets (CONTINUED)

The recoverable amount of individual assets or cash-generating units is the higher of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. The recoverable amount of assets that do not generate independent cash flows (e.g. corporate assets) is determined by assessing cash flows of the group to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, as if no impairment loss had been recognised.

K) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made, or as required by regulations in the case of provisions for incurred but not yet reported losses on off-balance-sheet credit risk exposures.

Provisions for liabilities and charges are maintained at the level that the Bank's management considers sufficient for absorption of losses. The management determines the sufficiency of provisions on the basis of insight into specific items, current economic circumstances, risk characteristics of certain transaction categories, as well as other relevant factors. Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

L) Capital and reserves

Issued share capital

Issued share capital represents the nominal value of paid-in ordinary and preference shares and is denominated in BAM.

Treasury shares

When the Bank purchases its own equity instruments (treasury shares), the consideration paid is deducted from equity until the shares are cancelled. When such shares are subsequently sold or reissued, any consideration received, net of transaction costs, is included in issued share capital.

2. Significant accounting policies (CONTINUED)

L) Capital and reserves (CONTINUED)

Regulatory reserves for credit losses

Regulatory reserves for credit losses are recognised in accordance with FBA regulations. Regulatory reserves for credit losses are non-distributable. Details of their calculation and presentation are given in Note 3e Significant accounting judgements and estimates: regulatory reserves for credit losses.

Retained earnings

Profit for the period after appropriations to owners and allocations to other reserves are transferred to retained earnings.

Fair value reserve

Fair value reserve comprises changes in fair value of financial assets available for sale, net of deferred tax.

Dividends

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

M) Off-balance-sheet commitments and contingent liabilities

In the ordinary course of business, the Bank enters into credit related commitments which are recorded off balance sheet and primarily comprise guarantees, letters of credit, undrawn loan commitments and credit card limits.

N) Managed funds for and on behalf of third parties

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

O) Segment reporting

A business segment is a distinguishable component of the Bank that is engaged in providing products or services, which is subject to risks and rewards that are different from those of other segments. Geographical segment is engaged in providing products or services within a particular economic environment distinguished from other segments engaged in providing products or services within other economic environments.

Segment results that are reported to the Bank's director (as chief operating decision maker) include items that are directly related to individual segments as well as those that can be reasonably allocated.

2. Significant accounting policies (CONTINUED)

O) Segment reporting (CONTINUED)

The Bank has identified four primary business segments: Retail, Corporate including State and Public Sector, Investments and Central Unit. The primary segmental information is based on the internal reporting structure of business segments. Geographical concentration is not presented as the Bank's operations are concentrated in Bosnia and Herzegovina. Segmental results are measured inclusive of the application of internal transfer prices (Note 4).

P) Employee benefits

a) Pension obligations

For defined contribution plans, the Bank pays contributions to obligatory pension funds managed by state-owned management companies. These contributions are recognised as personnel costs in profit or loss as they accrue.

b) Long-term employee rewards

Participants for each cycle of the so-called "Long-term Incentive Plan" are defined based on criteria related to their contribution to the Bank's long-term sustainable profitability. The estimated amount is recognised as personnel costs in profit or loss as earned by participants.

c) Other employee benefits

Liabilities based on other long-term employee benefits, such as jubilee awards and statutory termination benefits, are recorded at the net present value of the liability for defined benefits at the reporting date. The projected credit unit method is used for the calculation of the present value of the liability. The rate of average long-term borrowing of corporate clients is used as a discount rate in the absence of an active corporate debt securities market.

R) Basic and diluted earnings per share

The Bank publishes basic and diluted earnings per share (EPS) data. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. During the year and in 2011 there were no dilution effects.

S) Leases

Leases in terms of which the Bank as a lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. At the reporting date, the Bank did not have any finance leases. All other leases are classified as operating leases.

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

T) Dividend income

Dividend income on equity securities is credited to profit or loss when the right to receive the dividend is established.

2. Significant accounting policies (CONTINUED)

U) Borrowing costs

The Bank capitalises borrowing costs on qualifying assets in accordance with the International Accounting Standard 23 “Borrowing Costs”. During 2012 and 2011 there were no qualifying assets, so no borrowing costs were capitalised. All other borrowing costs are charged to profit or loss as they occur using the effective interest rate method.

V) Assets acquired in lieu of uncollected receivables

The Bank assesses the marketability of assets acquired in lieu of uncollected receivables and only marketable assets, the value of which can be measured reliably, are recognised as assets in the statement of financial position. The Bank’s intention is mainly to sell such assets, in which case they are classified as inventory, and not amortised. However, in certain limited cases they may end up being used by the Bank and amortised within buildings, which are part of property and equipment.

W) Debt crisis impact

The economic effects of the debt crisis, characterised by a high level of public debt in a considerable number of EMU countries, have also reduced external demand in neighbouring countries in the region, which has an adverse impact on BIH, as well. Bosnia and Herzegovina is characterised by an adequate level of public debt, projected at 42% of GDP, which is clearly below the benchmark limit of 60% of GDP. Although, as one of the effects of the debt crisis, there is an aversion to direct foreign investments into SEE countries, there are positive trends in BIH are the result of improved direct investments in the non-financial sector amounting to 3-4% of GDP in 2012

The economic effects of the debt crisis mostly affect the real economic sector, while in monetary aspects, the Currency Board policy remains stable, with safe management over the last decade and a half. Contrary to some other countries in the CEE region, there are no currency volatility risks.

At the same time, no repayment of the country’s debt took place in the period from December 2011 to the end of the 3rd quarter of 2012, as in some other countries of the CEE region. Thus in the reporting period, the country’s external debt was increased by 1% compared to the 2012 GDP projection, while banks’ external debt was reduced by 1% of GDP, primarily as a result of insufficient domestic demand for loans.

Taking into consideration its most significant effects, the Eurozone debt crisis has had a limited direct impact on the safety of the banking industry in the country, given its conservative character. However, together with the monetary framework and strict regulatory requirements concerning liquidity in the Federation of BIH, and the low reference interest rates in the EMU, these effects are reflected in lower possibilities of income generation by the country’s banking sector.

In the forthcoming period, the effects of the debt crisis will create a need for stronger self-sustainability of the local banking industry, focusing on internal funding resources. At the end of 2012, the Bank’s net loans and deposits ratio was 86%, thus confirming the stability and self-sufficiency of its operations through financing of credit activities from the Bank’s own resources.

Influence on credit risk

In terms of the effect of the financial and economic crisis on credit risk, in 2012 the Bank maintained its conservative approach to the approval of loan arrangements. In accordance with the practice of the Group, which gives great importance to the credit function, the Bank regularly carefully monitors exposure to individual customer receivables by type and groups of related party, in order to reduce the risk of impairment losses and negative impact on regulatory capital.

2. Significant accounting policies (CONTINUED)

W) Debt crisis impact (CONTINUED)

Influence on credit risk (CONTINUED)

In specifying a financial strategy of maintaining appropriate business relationship with its clients whilst seeking to ensure the timely detection of possible difficulties being experienced by those clients, the Bank tries to maintain the quality of the existing portfolio and provide constant management and monitoring of risks.

The existing collateral policy has proved to be effective for the Bank. For smaller exposures collateral may be in the form of intangible assets, such as guarantees. For larger exposures over a longer repayment period, tangible collateral such as real estate is usually required.

The Bank usually uses the services of ZANE BH d.o.o., a real estate agency and related party, for valuation purposes.

Influence on liquidity

Through the approach of having different funding sources available, such as customer deposits, bank deposits, credit lines and other available resources, the Bank has ensured sufficient liquidity in times of debt crisis. Within these different funding sources, a high level of self-sustainability (as explained earlier), has resulted in the international debt crisis having no significant influence on the Bank's liquidity.

X) Standards, interpretations and amendments to published standards that are not yet effective and were not used in preparation of these financial statements

Several new and altered Standards and Interpretations have been issued by the International Accounting Standards Board and its International Financial Reporting Interpretations Committee, but are not applicable to entities reporting under IFRS for the year ended 31 December 2012, and have not been applied in preparation of these financial statements. The majority of the new and altered Standards and Interpretations are not relevant to the Bank's business and hence will not affect its financial statements except as follows.

IFRS 9 Financial instruments

IFRS 9 Financial instruments (the complete version of this standard has not yet been adopted and the IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting), replaces IAS 39 Financial instruments: Recognition and Measurement. IFRS 9 is obligatory for financial statements for periods beginning on or after 1 January 2015 with earlier adoption permitted. The standard introduces significant changes in terms of the classification and measurement of financial assets. The Bank has not yet determined the date of the first adoption of IFRS 9 nor has it fully analysed the effects of its adoption.

IFRS 13 Fair value measurement

IFRS 13 is mandatory for financial statements for periods from 1 January 2013, with possible usage in earlier periods. It provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The Bank will apply IFRS 13 beginning from 1 January 2013, and considers that no significant changes will occur.

Y) Restatement of comparatives

Restatement of comparative financial information is analysed within Note 39.

3. Significant accounting estimates and judgments

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 lending 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.

A)) Impairment losses on loans and receivables and provisions for off-balance-sheet exposure

The Bank monitors the creditworthiness of its customers on an ongoing basis. The need for impairment of the Bank's on- and off-balance-sheet credit risk exposures is assessed on a monthly basis. Impairment losses are made mainly against the carrying value of loans to corporate and retail customers (summarised in Note 17), and as provisions for liabilities and charges arising from off-balance-sheet risk exposure to customers, mainly in the form of undrawn lending commitments, guarantees and letters of credit (summarised in Note 11 and Note 27).
Impairment losses are also considered for credit risk exposures to banks and for other assets not carried at fair value, where the primary risk of impairment is not credit risk.

		2012	Restated 2011
	Note	BAM '000	BAM '000
Impairment allowances based on credit risk exposure			
Impairment allowances for loans and receivables from customers	*17*	266,899	253,528
Provisions for off-balance-sheet items	*27*	7,184	6,487
Impairment allowances for loans to and receivables from banks	*15*	124	438
Total		**274,207**	**260,453**

Financial assets carried at amortised cost

The Bank first assesses whether objective evidence of impairment exists individually for assets that are individually significant (mainly corporate exposures and retail exposures over BAM 150 thousand) and collectively for assets that are not individually significant (mainly retail exposures under BAM 150 thousand). However, assets assessed individually as unimpaired are then included in groups of assets with similar credit risk characteristics and then assessed collectively for impairment.

In assessing collective impairment the following guidelines are used:

- future cash flows of a homogeneous segment/product group are estimated based on historical losses for assets with similar credit risk characteristics;
- information on historical loss rates are applied consistently to defined homogeneous segments/groups;
- historical losses are adjusted in line with current data which can be used consistently with the current conditions;
- the methodology and assumptions used to estimate future cash flows are regularly revised, and updated as necessary.

3. Significant accounting estimates and judgements (CONTINUED)

A) Impairment losses on loans and receivables and provisions for off-balance-sheet exposure (CONTINUED)

Financial assets carried at amortised cost (CONTINUED)

As explained in Note 3e, the Bank calculates provisions under FBA rules, as well as estimating impairment allowances under IFRS. The provisions calculated under FBA rules are not recognised by the Bank but form the basis for capital adequacy calculations, and in previous periods, formed the basis for transfers to non-distributable reserves within equity.

Non performing portfolio

At the year end, the gross value of impaired loans and receivables, and the rate of recognised impairment loss, calculated according to IFRS, were as follows:

			31 December 2012			**Restated 31 December 2011**
			BAM '000			**BAM '000**
	Corporate and State	Retail	**Total**	Corporate and State	Retail	**Total**
Gross exposure	230,643	93,805	**324,448**	245,809	83,741	**329,550**
Impairment rate	72.47%	80.08%	**74.67%**	67.23%	79.36%	**70.31%**

An increase in the impairment rate of 1pp on the gross non-performing loans identified above as impaired at 31 December 2012, would lead to the recognition of an additional impairment loss of BAM 3,244 thousand *(2011: BAM 3,296 thousand)*.

Non-performing portfolio – calculation under Agency rules

At year end, the gross value of impaired loans and receivables, and the rate of impairment loss, calculated as prescribed by the Agency, were as follows:

			31 December 2012			**Restated 31 December 2011**
			BAM '000			**BAM '000**
	Corporate and State	Retail	**Total**	Corporate and State	Retail	**Total**
Gross exposure	182,648	64,415	**247,063**	184,491	63,044	**247,535**
Impairment rate	84.17%	89.52%	**85.57%**	80.85%	85.41%	**83.80%**

An increase in the impairment rate of 1pp on the gross non-performing loans identified above as impaired under Agency rules at 31 December 2012, would lead to additional provisions of BAM 2,470 thousand *(2011: BAM 2,475 thousand)*. Under Agency rules, exposures with installments up to 90 days overdue are treated as performing. In accordance with the Agency regulations, the Bank also calculates provisions on such performing loans with delays in repayment of up to 90 days, at prescribed rates, in the range from 5% to 15% (risk category B). Impairment allowance at 31 December 2012, recognised for risk category B, amounted to BAM 11,503 thousand *(2011: BAM 10,594 thousand)*, while gross exposure amounted to BAM 108,844 thousand *(2011: BAM 91,206 thousand)*.

3. Significant accounting estimates and judgements (CONTINUED)

A) Impairment losses on loans and receivables and provisions for off-balance-sheet exposure (CONTINUED)

IBNR

In addition to identified losses on impaired loans, as described above, the Bank also recognises impairment losses which are known to exist at the reporting date, but which have not yet been specifically identified ("IBNR"). Amounts for which an impairment loss has been identified, are excluded from this calculation.

The amount of IBNR at 31 December 2012, amounted to BAM 30,918 thousand *(2011: BAM 28,103 thousand)* or 1.4% *(2011: 1.3%)* of loans and receivables from customers and 0.7% *(2011: 0.7%)* of total on- and off-balance-sheet credit risk exposure to customers, in both cases net of amounts assessed as impaired.

General provision – calculation under Agency rules

The general loan loss provision, calculated according to the Agency regulations, amounted BAM 57,192 thousand *(2011: BAM 58,179 thousand)* or 2% of the relevant on- and off-balance-sheet risk exposure.

B) 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 which are entitled to carry out subsequent inspections of taxpayers' records.

C) Regulatory requirements

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

D) Litigation and claims

The Bank makes individual assessment of all court cases whose value exceeds BAM 25 thousand. All court cases below BAM 25 thousand are monitored and provided for on a portfolio basis. The initial assessment is made by the Bank's Legal Department and its adequacy is independently monitored by Risk Management.

As stated in Note 27 the Bank provided BAM 4,140 thousand *(2011: BAM 8,157 thousand)*, which management estimates as sufficient. It is not practicable to estimate the financial impact of changes to the assumptions based on which management assesses the need for provisions.

E) Regulatory reserves for credit losses

Regulatory reserves represent a reserve within equity created in accordance with regulations prescribed by the FBA to manage the transition in statutory financial reporting from a local accounting framework to IFRS. Banks in the Federation of Bosnia and Herzegovina applied IFRS for the first time in their annual financial statements for 2011.

3. Significant accounting estimates and judgements (CONTINUED)

E) Regulatory reserves for credit losses (CONTINUED)

A decision issued by the FBA (Decision on changes and amendments to the decision on minimum standards for credit risk management and assets classification for banks, published in the FBIH Official Gazette no.15 dated 22 February 2013), changed the regulations for the recognition of reserves for credit losses within equity with effect from 2012, but without retrospective application for prior periods, as explained below, with the result that the balance on the reserve is effectively frozen at the amount recognised as of 31 December 2011.

As of 1 January 2010, the transition date for the first-time adoption of IFRS, the Bank presented as an allocation within equity (transferred from retained earnings) the shortfall in impairment allowances recognised under IFRS compared with provisions calculated in accordance with the previous accounting framework (which required provisions against on- and off-balance-sheet exposures to be calculated in accordance with rates prescribed by the FBA) as of that date. Similarly, the Bank computed this difference as of 31 December 2010 and 2011. As there was an increase in the shortfall in 2010, the Bank recognised this as a further transfer to reserves for credit losses in its restatement of changes in equity for 2010. However, as there was a decrease in the shortfall in 2011, the Bank was not able to propose a transfer from the reserve for credit losses back to retained earnings, according to the applicable FBA regulations at the time.

As of 31 December 2011, the Bank was required to compute capital adequacy, taking into account equity excluding the balance on reserves for credit losses.

The Bank has calculated provisions as of 31 December 2012 in accordance with rates prescribed by the FBA for the purposes of assessing capital adequacy ("regulatory provisions"). These rates are unchanged from those applicable prior to 2011 under the previous accounting framework; however, whereas previously surpluses as well as shortfalls calculated on individual exposures within a portfolio were taken into account, now only shortfalls are taken into account, resulting in an increased overall difference. The Bank's calculations indicate an increase in the shortfall in regulatory provisions. However, as set out in its Decision dated 22 February 2013, the FBA will no longer require such increases in the shortfall in regulatory provisions to be recognised as an increase in reserves for credit losses within equity, but nor will it allow the reversal of previously recognised reserves for credit losses. Accordingly, the management of the Bank is not required to propose the allocation of a further amount of BAM 17,670 thousand in respect of the increased shortfall in 2012 as a transfer from retained earnings to reserves for credit losses as was previously required. For the purposes of calculating capital adequacy, the regulations are unchanged from 2011. Therefore, in presenting its calculation of capital adequacy under FBA requirements as of 31 December 2012, the Bank has both excluded from eligible equity the balance recognised in reserves for credit risks at that date, and also further deducted the increase in the shortfall in regulatory provisions of BAM 17,670 thousand in 2012.

For the purposes of calculating capital adequacy, the regulations are unchanged from 2011. Therefore, in presenting its calculation of capital adequacy under FBA requirements as of 31 December 2012, the Bank has both excluded from eligible equity the balance recognised in reserves for credit risks at that date, and also further deducted the increase in the shortfall in regulatory provisions of BAM 17,670 thousand in 2012.

The regulatory provisions include both specific and general provisions. The general provision is added back as Tier 2 capital in the computation of capital adequacy under FBA rules. The amount of such general provision of BAM 57,192 thousand at 31 December 2012 added back as Tier 2 capital exceeds by BAM 18,840 thousand the combined amount of regulatory reserves of BAM 20,682 thousand excluded from Tier 1 capital and BAM 17,670 thousand further deducted from capital at that date *(2011: excess of BAM 37,497 thousand)*.

4. Financial information by segment

The Bank's segments are as follows:

1 "Retail": individuals, small business and sole traders;

2 "Corporate including State": large and medium corporate clients, State and public sector;

3 "Investments": Financial markets (trading activities or "MIB") and asset and liability management (ALM) and

4 "Central unit": other assets and liabilities not assigned to other segments.

Financial information by segment is presented below in accordance with the analysis in management accounting reports. In the analysis included elsewhere in these financial statements, small business is included as part of Corporate.

In the calculation of segment results, the Bank applies internal prices, based on specific prices according to currency and maturity, with embedded additional adjustments.

Segmental profit or loss

	Retail	Corporate and State	Investments	Central unit	Total
31 December 2012	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**
Net interest income	115,566	42,110	(8,431)	(12,580)	136,665
Net fee and commission income	36,303	16,307	(1,199)	(129)	51,282
Dividend income	-	-	-	10	10
Net gains/(losses) on financial instruments at fair value through profit or loss and result from foreign exchange trading and translation of monetary assets and liabilities and net gains on investment securities	6,716	1,301	1,944	(10)	9,951
Revenue	**158,585**	**59,718**	**(7,686)**	**(12,709)**	**197,908**
Other income	563	1,028	73	512	2,176
Amortisation and impairment loss on property and equipment and intangible assets	(10,663)	(1,177)	(90)	(2,756)	(14,686)
Other operating expenses	(84,670)	(18,718)	(2,231)	1,793	(103,826)
Impairment losses on loans and receivables from customers, and other impairment losses and provisions	(15,766)	(9,058)	-	3,188	(21,636)
Segment result	**48,049**	**31,793**	**(9,934)**	**(9,972)**	**59,936**
Income tax expense	-	-	-	(6,486)	(6,486)
Profit/(loss) for the period	**48,049**	**31,793**	**(9,934)**	**(16,458)**	**53,450**

4. Financial information by segment (CONTINUED)

Segmental profit or loss (CONTINUED)

	Retail	Corporate and State	Investments	Central unit	Total
31 December 2011	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**
Net interest income	112,711	42,452	689	(12,888)	142,964
Net fee and commission income	33,543	17,074	(1,036)	(58)	49,523
Dividend income	-	-	-	9	9
Net gains on financial instruments at fair value through profit or loss and result from foreign exchange trading and translation of monetary assets and liabilities	7,512	1,373	2,180	-	11,065
Net losses from disposal of investment in associate	-	-	-	(257)	(257)
Revenue	**153,766**	**60,899**	**1,833**	**(13,194)**	**203,304**
Other income	821	275	24	313	1,433
Amortisation and impairment loss on property and equipment and intangible assets	(13,386)	(1,435)	(86)	(3,241)	(18,148)
Other operating expenses	(79,760)	(19,530)	(1,976)	(2,432)	(103,698)
Impairment losses on loans and receivables from customers, and other impairment losses and provisions	(8,853)	(13,773)	-	(3,572)	(26,198)
Segment result	**52,588**	**26,436**	**(205)**	**(22,126)**	**56,693**
Income tax expense	-	-	-	(6,709)	(6,709)
Profit/(loss) for the period	**52,588**	**26,436**	**(205)**	**(28,835)**	**49,984**

4. Financial information by segment (CONTINUED)

Segmental statement of financial position

31 December 2012	Retail BAM '000	Corporate and State BAM '000	Investments BAM '000	Central unit BAM '000	Total BAM '000
Segment assets	1,369,396	904,220	1,236,896	233,614	3,744,126
Income tax prepayment	-	-	-	68	68
Total assets	**1,369,396**	**904,220**	**1,236,896**	**233,682**	**3,744,194**
Segment liabilities	1,709,814	921,614	485,779	102,066	3,219,273
Deferred tax liability	-	-	-	1,428	1,428
Total liabilities	**1,709,814**	**921,614**	**485,779**	**103,494**	**3,220,701**
Acquisition of property and equipment and intangible assets	-	-	-	11,432	11,432

31 December 2011, restated	Retail BAM '000	Corporate and State BAM '000	Investments BAM '000	Central unit BAM '000	Total BAM '000
Segment assets	1,370,388	847,825	1,071,444	241,162	3,530,819
Total assets	**1,370,388**	**847,825**	**1,071,444**	**241,162**	**3,530,819**
Segment liabilities	1,596,806	849,910	490,344	120,141	3,057,201
Current tax liability	-	-	-	1,805	1,805
Deferred tax liability	-	-	-	1,507	1,507
Total liabilities	**1,596,806**	**849,910**	**490,344**	**123,453**	**3,060,513**
Acquisition of property and equipment and intangible assets	-	-	-	9,917	9,917

5. Interest income

a) Analysis by source

	2012	2011
	BAM '000	BAM '000
Retail	120,175	123,961
Corporate	50,559	49,851
Banks and other financial institutions	1,576	6,862
State and public sector	13,100	11,966
	185,410	**192,640**

Banks and other financial institutions include the Central Bank of BIH.

b) Analysis by product

	2012	2011
	BAM '000	BAM '000
Loans and receivables from customers	180,268	184,841
Loans to and receivables from banks and cash reserves	1,447	3,564
Obligatory reserve and cash reserves with the Central Bank of BIH	129	3,298
Debt securities	3,566	937
	185,410	**192,640**

Interest income on impaired loans and receivables amounted to BAM 2,028 thousand (2011: BAM 2,543 thousand).

6. Interest expense

a) Analysis by recipient

	2012	2011
	BAM '000	**BAM '000**
Banks and other financial institutions	11,464	14,271
Retail	24,913	25,043
State and public sector	7,305	4,665
Corporate	5,063	5,697
	48,745	**49,676**

b) Analysis by product

	2012	2011
	BAM '000	**BAM '000**
Current accounts and deposits from retail customers	24,913	25,043
Interest-bearing borrowings	7,171	8,718
Subordinated debt	712	808
Current accounts and deposits from corporates and State	12,368	10,363
Current accounts and deposits from banks	1,250	2,024
Issued debt securities	2,331	2,720
	48,745	**49,676**

7. Fee and commission income

	2012	2011
	BAM '000	**BAM '000**
Credit cards	20,229	20,090
Domestic payment transactions	14,637	13,664
Foreign payment transactions	8,805	8,952
Guarantees and letters of credit	5,302	5,002
Other	4,891	4,244
	53,864	**51,952**

8. Fee and commission expense

	2012	2011
	BAM '000	**BAM '000**
Foreign payment transactions	1,059	1,089
Domestic payment transactions	809	622
Other	714	718
	2,582	**2,429**

9a. Dividend income

	2012	2011
	BAM '000	**BAM '000**
Dividends from available–for sale equity securities	10	9

9b. Net gains on financial instruments at fair value through profit or loss and result from foreign exchange trading and translation of monetary assets and liabilities

	2012	2011
	BAM '000	BAM '000
Foreign exchange spot trading gains	10,128	11,298
Net losses from FX forwards	(222)	(234)
Net foreign exchange (loss)/gain from translation of monetary assets and liabilities	(2)	1
	9,904	**11,065**

9c. Net gains on investment securities

	2012	2011
	BAM '000	BAM '000
Realised gains from disposal of financial assets available for sale	47	-

9d. Net losses from disposal of investment in associate

	2012	2011
	BAM '000	BAM '000
Net losses from disposal of investment in associate	-	(257)

9e. Other income

	2012	Restated 2011
	BAM '000	BAM '000
Income from expenses recharged to customers	352	348
Net gains on disposal of property and equipment	512	54
Net gains on disposal of assets acquired in lieu of uncollected receivables	658	569
Rental income	46	49
Write-offs and reversal of accrued expenses	217	97
Income from application maintenance	184	-
Income from claims settled by insurance companies	16	46
Other	191	270
	2,176	**1,433**

10. Operating expenses

	2012	2011
	BAM '000	BAM '000
Administration and marketing expenses	36,501	35,413
Personnel costs	52,291	53,165
Rental costs	7,673	7,568
Amortisation and depreciation *(Notes 20 and 21)*	14,079	15,274
Impairment of property and equipment *(Note 20)*	607	2,874
Savings deposit insurance expenses	6,175	6,221
State contributions (excluding personnel-related)	892	1,053
Other expenses	294	278
	118,512	**121,846**

During the year there were no reversals of impairment losses on property and equipment.

Personnel costs include BAM 9,900 thousand of defined contributions paid into the state-owned pension plans *(2011: BAM 9,854 thousand)*.

11. Other impairment losses and provisions

The charge/(credit) for other impairment losses and provisions in profit or loss, excluding impairment losses on loans and receivables from customers and banks, is analysed as follows:

		2012	Restated 2011
	Note	**BAM '000**	**BAM '000**
Off-balance-sheet exposure to credit risk	*27*	698	1,527
Provisions for court cases	*27*	(2,713)	580
Other assets	*18*	(142)	1,640
		(2,157)	**3,747**

12. Income tax

a) Income tax expense recognised in profit or loss

	2012	2011
	BAM '000	**BAM '000**
Current income tax charge	6,536	6,230
Net deferred tax *(Note 28)*	(50)	479
	6,486	**6,709**

b) Reconciliation of income tax expense

	2012	2011
	BAM '000	**BAM '000**
Profit before tax	59,936	56,693
Tax calculated at rate of 10%	5,994	5,669
Non-deductible expenses	612	631
Non-deductible provisions and write offs	32	101
Suspended income, not recognised as expense in prior years	(102)	(171)
Other provisions	(50)	479
Income tax expense	**6,486**	**6,709**
Average effective income tax rate	**10.8%**	**11.8%**

13. Cash and cash equivalents

	2012	Restated 2011
	BAM '000	BAM '000
Cash in hand	111,849	113,235
Items in the course of collection	165	149
Current accounts with other banks	78,308	36,567
Giro account with Central Bank of BIH	278,950	133,242
	469,272	**283,193**

14. Obligatory reserve with Central Bank

The obligatory reserve represents amounts required to be deposited with the Central Bank of BIH. The obligatory reserve is calculated on the basis of deposits and borrowings taken regardless of currency.

The basis for calculation of obligatory reserve excludes:

- borrowings taken from foreign entities;
- funds from governments of BIH entities for development projects.

Required obligatory reserve rates are:

- 10% (2011: 10%) of deposits and borrowings with maturity of up to one year (short-term deposits and borrowings)
- 7% (2011: 7%) on deposits and borrowings with maturity over one year (long-term deposits and borrowings).

15. Loans to and receivables from banks

	2012	Restated 2011
	BAM ’000	**BAM ’000**
Placements with other banks - gross	510,036	602,692
Loans to banks - gross	173	-
Impairment allowance	(124)	(438)
	510,085	**602,254**

Loans to and receivables from banks included BAM 3,122 thousand pledged as collateral for the Bank’s liabilities to Visa and MasterCard in respect of credit card operations *(2011: BAM 3,175 thousand)*.

Loans to and receivables from banks include BAM 109,050 thousand *(2011: BAM 137,333 thousand)* of placements and loans to related parties.

The movement in impairment allowance for loans to and receivables from banks is as follows:

	2012	2011
	BAM ’000	**BAM ’000**
Balance as at 1 January	438	438
Write-offs	(314)	-
Net charge to profit or loss	-	-
Balance as at 31 December	**124**	**438**

Placements with other banks are neither past due nor impaired, with the exception of placements with banks in the amount of BAM 124 thousand *(2011: BAM 438 thousand)*, which are fully provided for.

15. Loans to and receivables from banks (CONTINUED)

The classification of loans to and receivables from banks according to Standard and Poor's ratings is presented in the table below:

	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	Lower than B+/B	Unrated	Total
31 December 2012	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**
Loans to and receivables from banks	-	359,369	108,614	4,158	-	37,944	510,085
	-	**359,369**	**108,614**	**4,158**	**-**	**37,944**	**510,085**

Comparative information has not been presented as it was not practicable.

16a. Financial assets available for sale

	2012	Restated 2011
	BAM '000	**BAM '000**
Debt securities available for sale	133,199	71,593
Equity securities available for sale	216	216
	133,415	**71,809**

During the year as well as in 2011, there were no overdue and unpaid financial assets available for sale nor impairment losses on available-for-sale financial assets.

16a. Financial assets available for sale (CONTINUED)

1.) Available-for-sale debt securities

	2012	Restated 2011
	BAM '000	**BAM '000**
BIH entities governments' bonds	85,474	1,115
BIH entities governments' treasury bills	32,171	22,203
Republic of Croatia treasury bills	3,352	2,047
Other sovereign bonds	12,202	46,228
	133,199	**71,593**
Listed or quoted	133,199	71,593
Unlisted and unquoted	-	-
	133,199	**71,593**

Other sovereign bonds in the amount of BAM 12,202 thousand *(2011: BAM 46,228 thousand)* relate to Germany and Finland, while BIH entities bonds in the amount of BAM 85,474 *(2011: BAM 1,115)* thousand relate to bonds of the Federal Ministry of Finance of BIH.

BIH entities' treasury bills in the amount of BAM 22,025 thousand *(2011: BAM 14,123 thousand)* relate to treasury bills of the Federal Ministry of Finance of BIH, while treasury bills in the amount of BAM 10,146 thousand *(2011: BAM 8,080 thousand)* relate to the Ministry of Finance of Republika Srpska.

2.) Available-for-sale equity securities

	2012	2011
	BAM '000	**BAM '000**
Listed or quoted	216	216
Unlisted and unquoted	-	-
	216	**216**

16a. Financial assets available for sale (CONTINUED)

3) Analysis of financial assets available for sale according to fair value levels

Review of financial assets available for sale (other than equity securities carried at cost reductions for possible impairment) according to fair value levels is presented in the table below:

	Level 1	Level 2	Level 3	Total
31 December 2012	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**
Federal Ministry of Finance of BIH bonds	-	85,474	-	85,474
Federal Ministry of Finance of BIH treasury bills	-	22,025	-	22,025
Republika Srpska Federal Ministry of Finance treasury bills	-	10,146	-	10,146
Republic of Croatia treasury bills	-	3,352	-	3,352
Other sovereign bonds	12,202	-	-	12,202
	12,202	**120,997**	**-**	**133,199**

	Level 1	Level 2	Level 3	Total
31 December 2011, Restated	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**
Federal Ministry of Finance of BIH bonds	-	1,115	-	1,115
Federal Ministry of Finance of BIH treasury bills	-	14,123	-	14,123
Republika Srpska Federal Ministry of Finance treasury bills	-	8,080	-	8,080
Republic of Croatia treasury bills	-	2,047	-	2,047
Other sovereign bonds	46,228	-	-	46,228
	46,228	**25,365**	**-**	**71,593**

During the year as well in 2011, there were no transfers of financial assets available for sale between different fair value levels.

4) Analysis of financial assets available for sale according to external ratings

Analysis of financial assets available for sale according to Standard and Poor's ratings is presented in the table below:

	AAA/AA-	BB+/BB-	B+/B-	Unrated	Total
31 December 2012	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**
Federal Ministry of Finance of BIH bonds	-	-	85,474	-	85,474
Federal Ministry of Finance of BIH treasury bills	-	-	22,025	-	22,025
Republika Srpska Federal Ministry of Finance treasury bills	-	-	10,146	-	10,146
Republic of Croatia treasury bills	-	3,352	-	-	3,352
Other sovereign bonds	12,202	-	-	-	12,202
Equity securities	-	-	-	216	216
	12,202	**3,352**	**117,645**	**216**	**133,415**

16a. Financial assets available for sale (continued)

4) Analysis of financial assets available for sale according to external ratings (continued)

31 December 2011, Restated	AAA/AA- BAM '000	BBB+/BBB- BAM '000	B+/B- BAM '000	Unrated BAM '000	Total BAM '000
Federal Ministry of Finance of BIH bonds	-	-	1,115	-	1,115
Federal Ministry of Finance of BIH treasury bills		-	14,123	-	14,123
Republika Srpska Federal Ministry of Finance treasury bills	-	-	8,080	-	8,080
Republic of Croatia treasury bills	-	2,047	-	-	2,047
Other sovereign bonds	46,228	-	-	-	46,228
Equity securities	-	-	-	216	216
	46,228	**2,047**	**23,318**	**216**	**71,809**

16b. Financial assets and financial liabilities at fair value through profit or loss

Financial assets	2012 BAM '000 Notional amount	2012 BAM '000 Fair value	2011 BAM '000 Notional amount	2011 BAM '000 Fair value
Derivatives classified as held for trading – OTC products				
Forward foreign exchange contracts	1,177	5	300	2
Foreign exchange swap contracts	219,143	-	193,115	-
	220,320	**5**	**193,415**	**2**

Derivatives with a fair value amount of BAM 0.1 thousand *(2011: BAM 1.8 thousand)* and notional amount of BAM 218,940 thousand *(2011: 192,996 thousand)* are with related parties.

Financial liabilities	2012 BAM '000 Notional amount	2012 BAM '000 Fair value	2011 BAM '000 Notional amount	2011 BAM '000 Fair value
Derivatives classified as held for trading – OTC products				
Forward foreign exchange contracts	568	4	120	1
Foreign exchange swap contracts	-	-	20,000	-
	568	**4**	**20,120**	**1**

Financial liabilities at fair value through profit or loss are all with related parties.

16b. Financial assets and financial liabilities at fair value through profit or loss (CONTINUED)

An analysis of financial assets and liabilities at fair value through profit or loss according to fair value levels is presented in the table below:

	Level 1	Level 2	Level 3	Total
31 December 2012	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**
Derivatives classified as held for trading – OTC products				
Financial assets	-	5	-	5
Financial liabilities	-	4	-	4
	Level 1	**Level 2**	**Level 3**	**Total**
31 December 2011	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**
Derivatives classified as held for trading – OTC products				
Financial assets	-	2	-	2
Financial liabilities	-	1	-	1

17. Loans and receivables from customers

a) Analysis by product

	2012	Restated 2011
	BAM '000	BAM '000
Corporate including State		
- in BAM	1,157,638	1,080,131
- in foreign currency	43,020	75,271
Total corporate including State	**1,200,658**	**1,155,402**
Impairment allowance	(180,882)	(178,916)
Net corporate including State	**1,019,776**	**976,486**
Retail		
- in BAM	1,347,461	1,328,984
- in foreign currency	637	573
Total retail	**1,348,098**	**1,329,557**
Impairment allowance	(86,017)	(74,612)
Net retail	1,262,081	1,254,945
Total gross loans	**2,548,756**	**2,484,959**
Impairment allowance	(266,899)	(253,528)
Net loans	**2,281,857**	**2,231,431**
Total impairment allowance as a percentage of gross loans to customers	10,47%	10,20%

In Notes 17 and 33 retail includes individuals and sole traders. Included in retail loans in BAM is BAM 862,054 thousand of gross loans *(2011: BAM 822,651 thousand)*, and in corporate including State in BAM loans BAM 630,490 thousand *(2011: BAM 634,867 thousand)* which have a EUR countervalue. Repayments of principal and interest are determined with reference to the EUR countervalue and are paid in the BAM equivalent translated at the rate applicable at the date of payment.

17. Loans and receivables from customers (CONTINUED)

b) Movement in impairment allowance for loans and receivables

Impairment losses on loans and receivables presented in profit or loss arise from the following movements in impairment allowance for loans and receivables:

	Retail	Corporate and State	Total
	BAM '000	BAM '000	BAM '000
Balance as at 1 January 2012, restated	74,612	178,916	253,528
Increase in impairment losses	26,833	24,445	51,278
Reversal of impairment on upgraded exposures	(4,267)	(1,168)	(5,435)
Collection of amounts previously provided	(10,823)	(11,227)	(22,050)
Impairment losses recognised in the profit or loss	*11,743*	*12,050*	*23,793*
Amounts written off	(499)	(10,470)	(10,969)
Other movements	161	384	545
Effect of foreign exchange	-	2	2
Balance as at 31 December 2012	**86,017**	**180,882**	**266,899**
Balance as at 1 January 2011, restated	59,919	181,361	241,280
Increase in impairment losses	36,194	24,056	60,250
Reversal of impairment on upgraded exposures	(12,379)	(6,325)	(18,704)
Collection of amounts previously provided	(9,166)	(9,929)	(19,095)
Impairment losses recognised in profit or loss	*14,649*	*7,802*	*22,451*
Amounts written off	(117)	(10,275)	(10,392)
Other movements	233	27	260
Effect of foreign exchange	(72)	1	(71)
Balance as at 31 December 2011, restated	**74,612**	**178,916**	**253,528**

The charge or credit to profit or loss resulting from the movement in impairment allowance for loans and receivables is disclosed in the line item impairment losses for loans and receivables in profit or loss.

17. Loans and receivables from customers (CONTINUED)

c) Concentration of credit risk by industry

The Bank's loan portfolio, net of impairment allowance, is analysed by industry in the table below:

	2012	Restated 2011
	BAM '000	**BAM '000**
Manufacture of transport vehicles and ships	-	4,828
Wood and paper	44,704	45,725
Food and drink	46,409	52,267
Metal and mechanical	47,830	37,422
Electricity, gas and water	29,461	24,981
Electrical and optical equipment	8,772	10,967
Chemicals	33,980	25,019
Textile and leather	26,593	26,408
Tobacco	9,639	11,753
Other manufacturing	45,572	45,522
Total manufacturing	**292,960**	**284,892**
Retail and wholesale trade	410,137	385,620
Construction	60,525	64,694
Financial intermediaries	9,378	11,293
Transport and communications	83,481	92,339
Tourism	29,504	25,420
Real estate	27,362	30,998
Agriculture, forestry and fisheries	12,756	11,363
Central and local state and defence	69,841	50,358
Education and other public services	2,323	3,090
Health and social care	6,089	1,625
Other	15,420	14,794
Total other corporate including state loans, net	**726,816**	**691,594**
Total loans to corporate and State, net	**1,019,776**	**976,486**
Housing loans	286,743	299,224
Non-purpose loans	796,465	764,547
Other retail loans	178,873	191,174
Total retail loans, net	**1,262,081**	**1,254,945**
Total loans and receivables from customers	**2,281,857**	**2,231,431**

18. Other assets

	2012	Restated 2011
	BAM ’000	BAM ’000
Receivables from debit and credit cards	30,478	26,699
Accrued fees	507	582
Assets acquired in lieu of uncollected receivables	4,710	4,502
Other assets	9,683	10,162
Impairment allowance	(9,824)	(10,664)
	35,554	**31,281**

Movement in impairment allowance for other assets

	2012	Restated 2011
	BAM ’000	BAM ’000
As at 1 January, restated	10,664	9,250
Net (credit)/charge to profit or loss	(142)	1,640
Write offs	(677)	(241)
Effects of foreign exchange	(21)	15
As at 31 December	**9,824**	**10,664**

Impairment losses on other assets are in profit or loss recognised in the line item other impairment losses and provisions *(Note 11).*

19.Investment in associate

The investment in UPI Poslovni sistem d.d. in which the Bank held 48.8% of the share capital *(as at 31 December 2010: BAM 1,787 thousand)* was sold in 2011 for BAM 1,530 thousand, and the sale resulted in a loss of BAM 257 thousand for the Bank. The investment was held at cost less impairment, since it was impracticable to assess the fair value of investment.

20. Property and equipment

2012	Land and buildings BAM '000	Motor vehicles and equipment BAM '000	Computers BAM '000	Assets acquired but not brought into use BAM '000	Total BAM '000
Cost					
As at 1 January 2012	**54,252**	**32,551**	**48,188**	**4,114**	**139,105**
Additions	-	-	-	5,667	5,667
Write offs	-	(246)	(373)	-	(619)
Disposals	(2,725)	(366)	-	-	(3,091)
Brought into use	315	2,197	4,640	(7,152)	-
As at 31 December 2012	**51,842**	**34,136**	**52,455**	**2,629**	**141,062**
Depreciation					
As at 1 January 2012	**14,505**	**20,964**	**40,115**	**-**	**75,584**
Depreciation charge for the year	1,013	2,654	4,175	-	7,842
Write offs	-	(224)	(372)	-	(596)
Disposals	(898)	(344)	-	-	(1,242)
Impairment loss *(Note 10)*	607	-	-	-	607
As at 31 December 2012	**15,227**	**23,050**	**43,918**	**-**	**82,195**
Net carrying value					
As at 1 January 2012	**39,747**	**11,587**	**8,073**	**4,114**	**63,521**
As at 31 December 2012	**36,615**	**11,086**	**8,537**	**2,629**	**58,867**

Assets acquired but not brought into use at 31 December 2012 represent equipment, motor vehicles and investments in property, not yet brought into use.

The carrying value of non-depreciating land within land and buildings amounted to BAM 0.4 million *(2011: BAM 0.4 million)*.

During the year, there were no capitalised borrowing costs related to the acquisition of property and equipment.

Property and equipment of the Bank are not pledged as collateral for the Bank's borrowings.

20.Property and equipment (CONTINUED)

2011	Land and buildings BAM '000	Motor vehicles and equipment BAM '000	Computers BAM '000	Assets acquired but not brought into use BAM '000	Total BAM '000
Cost					
As at 1 January 2011	50,389	31,267	45,529	3,398	130,583
Additions	-	-	-	6,408	6,408
Write offs	-	(266)	(734)	-	(1,000)
Disposals	(640)	(459)	-	-	(1,099)
Brought into use	290	2,009	3,393	(5,692)	-
Transfer from other assets	4,213	-	-	-	4,213
As at 31 December 2011	**54,252**	**32,551**	**48,188**	**4,114**	**139,105**
Depreciation					
As at 1 January 2011	**9,545**	**18,894**	**36,071**	**-**	**64,510**
Depreciation charge for the year	1,059	2,719	4,739	-	8,517
Write offs	-	(256)	(695)	-	(951)
Disposals	(191)	(393)	-	-	(584)
Impairment loss *(Note 10)*	2,874	-	-	-	2,874
Transfer from other assets	1,218	-	-	-	1,218
As at 31 December 2011	**14,505**	**20,964**	**40,115**	**-**	**75,584**
Net carrying value					
As at 1 January 2011	**40,844**	**12,373**	**9,458**	**3,398**	**66,073**
As at 31 December 2011	**39,747**	**11,587**	**8,073**	**4,114**	**63,521**

Assets acquired but not brought into use at 31 December 2011 represent equipment, motor vehicles and investments in property, not yet brought into use.

The carrying value of non-depreciating land within land and buildings amounted to BAM 0.4 million on 31 December 2011 *(2010: BAM 0.4 million)*.

Transfer from other assets relates to a building previously classified as held for sale at the 2010 year end. Given that the property was not sold in 2011 it was reclassified back to property and equipment.

During 2011, there were no capitalised borrowing costs related to acquisition of property and equipment.

During 2011, property and equipment of the Bank were not pledged as collateral for the Bank's borrowings.

21. Intangible assets

2012	Software into use	Leasehold improvements Total	Other intangible assets BAM '000	Assets acquired but not brought BAM '000	Total BAM '000
Cost					
As at 1 January 2012	**33,843**	**26,151**	**6,177**	**4,394**	**70,565**
Additions	-	-	-	5,765	5,765
Write offs	-	-	-	-	-
Brought into use	1,855	2,241	751	(4,847)	-
As at 31 December 2012	**35,698**	**28,392**	**6,928**	**5,312**	**76,330**
Amortisation					
As at 1 January 2012	**26,844**	**22,071**	**3,072**	**-**	**51,987**
Amortisation charge for the year	3,262	1,770	1,205	-	6,237
Write offs	-	-	-	-	-
As at 31 December 2012	**30,106**	**23,841**	**4,277**	**-**	**58,224**
Net carrying value					
As at 1 January 2012	**6,999**	**4,080**	**3,105**	**4,394**	**18,578**
As at 31 December 2012	**5,592**	**4,551**	**2,651**	**5,312**	**18,106**

Assets acquired but not brought into use at year end represent leasehold improvements and software.

During the year, the Bank did not capitalise any borrowing costs related to the acquisition of intangible assets.

At the reporting date, the Bank did not have any internally generated intangible assets.

21. Intangible assets (CONTINUED)

2011	Software BAM '000	Leasehold improvements BAM '000	Other intangible assets BAM '000	Assets acquired but not brought into use BAM '000	Total BAM '000
Cost					
As at 1 January 2011	34,027	25,473	5,623	2,903	68,026
Additions	-	-	-	3,509	3,509
Write offs	(970)	-	-	-	(970)
Brought into use	786	678	554	(2,018)	-
As at 31 December 2011	**33,843**	**26,151**	**6,177**	**4,394**	**70,565**
Amortisation					
As at 1 January 2011	**24,537**	**19,741**	**1,922**	**-**	**46,200**
Amortisation charge for the year	3,277	2,330	1,150	-	6,757
Write offs	(970)	-	-	-	(970)
As at 31 December 2011	**26,844**	**22,071**	**3,072**	**-**	**51,987**
Net carrying value					
As at 1 January 2011	**9,490**	**5,732**	**3,701**	**2,903**	**21,826**
As at 31 December 2011	**6,999**	**4,080**	**3,105**	**4,394**	**18,578**

Assets acquired but not brought into use at 31 December 2011 represented leasehold improvements and software.

During 2011 the Bank did not capitalise any borrowing costs related to the acquisition of intangible assets.

At 31 December 2011, the Bank did not have any internally generated intangible assets

22. Current accounts and deposits from banks

	2012	Restated 2011
	BAM '000	BAM '000
Demand deposits		
- in BAM	4,813	2,134
- in foreign currency	6,122	6,237
Term deposits		
- in BAM	2,925	-
- in foreign currency	138,885	119,516
	152,745	**127,887**

Current accounts and deposits from banks include BAM 143,772 thousand due to related parties *(2011: BAM 120,577 thousand)*

23. Current accounts and deposits from customers

	2012	Restated 2011
	BAM '000	BAM '000
Retail		
Foreign currency current accounts, savings accounts and term deposits	981,489	949,857
BAM current accounts, savings accounts and term deposits	581,043	504,553
	1,562,532	**1,454,410**
Corporate and State		
Demand deposits		
- in BAM	688,717	578,273
- in foreign currency	146,693	182,412
Term deposits		
- in BAM	137,473	149,527
- in foreign currency	118,519	113,536
	1,091,402	**1,023,748**
	2,653,934	**2,478,158**

Retail deposits in BAM include BAM 1,258 thousand *(2011: BAM 1,488 thousand)* and corporate including State deposits in BAM include BAM 53,556 thousand *(2011: BAM 87,600 thousand)* which have a EUR countervalue, with payments in BAM equivalent translated at the rate applicable at the date of payment.

Current accounts and deposits from customers include BAM 13,130 thousand from related parties *(2011: BAM 9,390 thousand)*.

24a. Interest-bearing borrowings

	2012	Restated 2011
	BAM '000	**BAM '000**
Foreign banks	203,878	232,982
Domestic banks	10,464	8,328
Other sources	-	3,284
	214,342	**244,594**

Interest-bearing borrowings include BAM 117,382 thousand *(2011: BAM 117,397 thousand)* of borrowings from related parties.

24b. Subordinated debt

	2012	Restated 2011
	BAM '000	**BAM '000**
Subordinated debt	**19,710**	**19,773**

The repayment of this debt is subordinated to all other liabilities of UniCredit Bank d.d.

Subordinated debt relates to Bank Polska Kasa Opieki S.A., Paris.

25. Other liabilities

	2012	Restated 2011
	BAM '000	**BAM '000**
Deferred income	1,493	1,463
Credit card payables	7,755	6,648
Accrued expenses	13,090	14,576
Liabilities for items in the course of settlement	35,317	40,870
Other liabilities	7,435	6,258
	65,090	**69,815**

26. Issued debt securities

During 2008, the Bank issued 100,000 bonds, at par value of BAM 1 thousand per bond. These bonds were fully subscribed by Zagrebačka banka d.d. and mature in 2013, and carry an interest rate of six-month EURIBOR + 1%.

	2012	Restated 2011
	BAM '000	BAM '000
Issued debt securities	**100,351**	**100,653**

27. Provisions for liabilities and charges

	Total	Provisions for off-balance-sheet items	Provisions for court cases	Long term provisions for employees
	BAM '000	BAM '000	BAM '000	BAM '000
Balance as at 1 January 2012	16,320	6,487	8,157	1,676
Net (release)/charge in profit of loss	(1,780)	698	(2,713)	235
Provisions used during the year	(1,442)	-	(1,304)	(138)
Foreign currency differences	(1)	(1)	-	-
Balance as at 31 December 2011	**13,097**	**7,184**	**4,140**	**1,773**
Balance as at 1 January 2011	14,487	4,961	7,846	1,680
Net charge in profit of loss	2,252	1,527	580	145
Provisions used during the year	(418)	-	(269)	(149)
Foreign currency differences	(1)	(1)	-	-
Balance as at 31 December 2011	**16,320**	**6,487**	**8,157**	**1,676**

Except for long-term provisions for employees, which are presented within personnel costs in operating expenses *(Note 10)*, provisions for liabilities and charges are presented within other impairment losses and provisions in profit or loss *(Note 11)*.

28. Deferred tax assets and liabilities

	2012	2011
	BAM '000	BAM '000
Deferred tax assets	**-**	**-**
Odgođena porezna obveza		
Net deferred tax liability for financial assets available for sale	(30)	(59)
Net deferred tax liability for other provisions for loans and receivables from customers	(1,398)	(1,448)
Net deferred tax liability	**(1,428)**	**(1,507)**

Movements in temporary differences of deferred tax assets and deferred tax liabilities in profit of loss and other comprehensive income, are presented as follows:

	Deferred tax asset	Deferred tax liability	Net deferred tax asset/ (liability)
	BAM '000	BAM '000	BAM '000
Balance as at 1 January 2012	**-**	**(1,507)**	**(1,507)**
Change in fair value of AFS financial assets recognised in other comprehensive income	-	29	29
Other provisions for loans and receivables from customers through profit or loss	-	50	50
Balance as at 31 December 2012	**-**	**(1,428)**	**(1,428)**

	Deferred tax asset	Deferred tax liability	Net deferred tax asset/ (liability)
	BAM '000	BAM '000	BAM '000
Balance as at 1 January 2011	**-**	**(997)**	**(997)**
Change in fair value of AFS financial assets recognised in other comprehensive income	-	(31)	(31)
Other provisions for loans and receivables from customers recognised through profit or loss	-	(479)	(479)
Balance as at 31 December 2011	**-**	**(1,507)**	**(1,507)**

29. Issued share capital

	31 December 2012 and 2011		
	Class A	Class D	
	Ordinary shares	Preference shares	Total
Number of shares	119,011	184	119,195
Par value (BAM)	1,000	1,000	1,000
Balance (BAM '000)	119,011	184	119,195

Earnings per share calculation is presented below.

	31 December 2012	31 December 2011
	BAM '000	BAM '000
Net profit for the period attributable to ordinary shareholders	53,450	49,984
Weighted average number of ordinary shares during the period	118,935	118,935
Basic and diluted earnings per share (BAM)	**449,41**	**420,26**

During 2012 and 2011 there was no dilution effect, accordingly basic and diluted earnings per share at the reporting date and at 31 December 2011 were equal.

30. Commitments and contingencies

The aggregate amounts of outstanding guarantees, letters of credit and undrawn lending commitments at year end were as follows:

	2012	2011
	BAM '000	**BAM '000**
Performance guarantees	90,575	94,965
Payment and custom guarantees	153,596	176,300
Letters of credit	21,099	11,776
Undrawn lending commitments	413,940	412,896
	679,210	**695,937**

31. Managed funds for and on behalf of third parties and custody services

	2012	2011
	BAM '000	**BAM '000**
Loans managed for and on behalf of third parties	43,593	45,862
Assets under custody	459,344	358,898
	502,937	**404,760**

These funds are not part of the statement of the financial position of the Bank, nor part of the assets of the Bank, and they are managed separately. The Bank earns fee income for provision of the related services.

32.Related party transactions

The Bank is a member of the UniCredit Group ("UCI Group"). The key shareholders of the Bank are Zagrebačka banka d.d. with a holding of 65.59% *(2011: 65.59%)* and UniCredit Bank Austria AG with 24.4% *(2011: 24.4%)*. The Bank considers that it has an immediate related party relationship with its key shareholders and their subsidiaries; its associate (up until disposal); Supervisory Board members, Management Board members and other executive management (together "key management personnel"); close family members of key management personnel; and entities controlled, or significantly influenced by key management personnel and their close family members.

Related party transactions are part of the Bank's regular operations.

32. Related party transactions (CONTINUED)

An overview of related party transactions in 2012 and balances at 31 December 2012 is presented below:

	Exposure*	Liabilities	Income	Expense
31 December 2012	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**
1. Immediate parent company				
Zagrebačka banka d.d.	8,775	101,539	335	2,714
2. Other members of UniCredit group (including intermediate and ultimate parent companies)				-
UniCredit S.p.A	8,866	222	70	-
UniCredit Bank Austria AG	84,418	237,386	282	4,553
UniCredit Bank AG	863	19,801	1	734
UniCredit Global Information Services (Ugis)	1,380	-	-	4,013
Bank Polska Kasa Opieki S,A	5	19,710	-	712
UniCredit Bank Slovenija	-	235	15	-
UniCredit Global Leasing Vienna	-	-	-	-
ZANE BIH d.o.o	-	1,347	-	29
UniCredit Banjalučka banka a.d.	37,983	2,927	658	36
UniCredit Bank Srbija a.d.	-	-	1	-
UniCredit Leasing d.o.o.	-	4,088	4	6
Interkonzum d.o.o. Sarajevo	-	1,125	-	13
UniCredit Broker, d.o.o	-	1,573	-	28
BACA Nekretnine d.o.o.	-	5,001	-	99
Total UniCredit Group	**142,290**	**394,954**	**1,366**	**12,937**
Management Board and parties related to Management Board	805	885	45	2,447
Other key management personnel and parties related to other key management personnel	1,048	2,832	57	2,717
Key management personel and parties related to key management personnel	1,853	3,717	102	5,164
Total related parties	**144,143**	**398,671**	**1,468**	**18,101**

*Exposure includes loans, interest receivables, other receivables and off-balance-sheet exposure.

There were no transactions with the members of the Supervisory Board during the year as well as in 2011.

32. Related party transactions (CONTINUED)

31 December 2011	Exposure BAM '000	Liabilities BAM '000	Income BAM '000	Expense BAM '000
1. Immediate parent company				
Zagrebačka banka d.d.	6,908	101,212	347	3,211
2. Associate (till November 2011)				
UPI Poslovni Sistem	-	-	-	38
3. Other members of UniCredit group (including intermediate and ultimate parent companies)				
UniCredit S.p.A	6,587	86	81	-
UniCredit Bank Austria AG	92,183	217,702	703	5,139
UniCredit Bank AG	380	19,786	37	827
UniCredit Global Information Services (Ugis)	1,536	-	-	3,949
Bank Polska Kasa Opieki S.A	11	19,773	-	791
UniCredit Bank Slovenija	-	78	13	-
UniCredit Global Leasing Vienna	1	8,157	3	87
ZANE BIH d.o.o	-	1,233	-	11
UniCredit Banjalučka banka a.d.	38,004	2	394	43
Total UniCredit Group	**145,610**	**368,029**	**1,578**	**14,096**
Management Board and other key management personnel	1,175	2,727	79	4,827
Total related parties	**146,785**	**370,756**	**1,657**	**18,923**

Income from UniCredit Group members in 2012 includes interest income in the amount of BAM 766 thousand *(2011: BAM 1,193 thousand)* and fee and commission income in the amount of BAM 378 thousand *(2011: BAM 385 thousand)*. Income in 2012 also includes other income in the amount of BAM 222 thousand *(2011: BAM 9 thousand*).

Expenses towards UniCredit Group members in 2012 include interest expense in the amount of BAM 7,960 thousand (*2011: BAM 9,335 thousand)*, fees in the amount of BAM 480 thousand *(2011: BAM 406 thousand)*, other administrative expenses in the amount of BAM 4,203 thousand *(2011: BAM 4,049 thousand)* and other expenses in the amount of BAM 294 thousand *(2011: BAM 306 thousand).*

Regarding exposure toward the related parties, the Bank did not have any impairment losses in 2012 and 2011, and the balance of impairment allowance at 31 December 2012 and 31 December 2011 was nil.

Further, the Bank did not receive any guarantees from the related parties at 31 December 2012 and 31 December 2011, but has issued guarantees in an amount of BAM 5,971 thousand to Bank Austria *(31.12.2011: BAM 13,769 thousand)*.

32. Related party transactions (CONTINUED)

Remuneration paid to Management Board and other key management personnel:

	2012	2011
	BAM '000	**BAM '000**
Management Board and other key management personnel		
Salaries paid during current year in respect of current year	3,103	3,442
Bonuses paid during current year in respect of prior year	1,307	1,302
	4,410	**4,744**

Management Board and other key management personnel costs include BAM 891 thousand of contributions with defined contribution amounts paid on and from salaries, into state-owned pension plans *(2011: BAM 958 thousand)*.

33. Risk management

The Bank's risk management is conducted through a system of policies, programmes, procedures and approved limits, which are continuously upgraded in accordance with changes in legislation, changes in business activities based on market trends and development of new products, as well as through the adoption of risk management standards of the Group.

The most important types of risk to which the Bank is exposed are credit risk, market risks and operational risk.

The principles of risk management and internal acts related to risk management are defined and adopted by the Supervisory Board and the Management Board.

In accordance with Group requirements, the Bank has implemented a standard approach to the international standard Basel II.

1. Credit risk

The Bank is, in its ordinary course of business, exposed to credit risk, which can be defined as the possibility that a borrower will default on its obligations defined in lending agreements, which may result in a financial loss for the Bank.

The exposure to credit risk is managed in accordance with the Bank's applicable programmes and policies, as well as other internal regulations prescribed by the Supervisory Board and the Management Board. The exposure to credit risks is managed, in a way that exposures to portfolios and individual client/group exposures are reviewed by taking into account prescribed limits.

The limits of credit risks are determined in relation to the Bank's regulatory capital.

In order to manage the level of credit risk, the Bank deals with counterparties of good credit standing, and when appropriate, obtains collateral.

The choice of collateral instruments for covering the Bank's receivables depends on:

- the assessment of the borrower's credit standing
- risk evaluation of the lending product itself
- evaluation of the value of the offered collateral and
- external regulations

The majority of credit risk exposures are secured with collateral in the form of cash, mortgages and guarantees, and so-called primary collateral or execution instruments consisting of promissory notes giving the Bank full contractual authority for collection of outstanding debts from the clients' accounts as well as a preapproval for seizure of income verified by the competent local authority (applicable to individual clients).

The Bank continually applies prudent methods and tools in the credit risk assessment process.

33. Risk management (CONTINUED)

1. Credit risk (CONTINUED)

Maximum exposure to credit risk

The maximum exposure to credit risk relating to items in the statement of financial position and commitments (off-balance-sheets items) is as follows:

	2012	Restated 2011
Statement of financial position	**BAM '000**	**BAM '000**
Current and giro accounts with banks and items in the course of settlement *(Note 13)*	357,423	169,958
Obligatory reserve with Central Bank *(Note 14)*	236,965	228,750
Loans to and receivables from banks *(Note 15)*	510,085	602,254
Financial assets at fair value through profit or loss *(Note 16b)*	5	2
Loans and receivables from customers *(Note 17)*	2,281,857	2,231,431
Debt securities available for sale *(Note 16a)*	133,199	71,593
Income tax prepayment	68	-
Other assets exposed to credit risk *(Note 18)*	34,284	29,847
Total credit risk exposure relating to assets	**3,553,886**	**3,333,835**
Off-balance-sheet items *(Note 30)*		
Guarantees	244,171	271,265
Letters of credit	21,099	11,776
Undrawn lending commitments	413,940	412,896
Total off-balance sheet credit risk exposure	**679,210**	**695,937**
As at 31 December	**4,233,096**	**4,029,772**

The above table represents the maximum credit risk exposure of the Bank as at 31 December 2012 and 31 December 2011, without taking into account any collateral held or other credit enhancements attached. For items in the statement of financial position, the exposures set out above are based on net carrying amounts as reported in the statement of financial position. For commitments the maximum credit risk exposure equals the total undrawn amounts.

As shown above, 53,9% of the total maximum exposure to credit risk is derived from loans and receivables from customers *(2011: 55.4%)*, while 12.0% refers to loans to and receivables from banks *(2011: 14.9%)*.

Management is confident in its ability to continue to control and sustain acceptable exposure to credit risk.

33. Risk management (CONTINUED)

1. Credit risk (CONTINUED)

Concentration of assets and liabilities to central government

The table below shows the concentration of placements and liabilities to the state of Bosnia and Herzegovina and its two constituent entities:

	2012	Restated 2011
	BAM '000	BAM '000
Giro account with Central Bank of BIH (Note 13)	278,950	133,242
Obligatory reserve with Central Bank (Note 14)	236,965	228,750
Federal Ministry of Finance of BIH treasury bills (Note 16a)	22,025	14,123
Republika Srpska Federal Ministry of Finance treasury bills (Note 16a)	10,146	8,080
Federal Ministry of Finance of BIH bonds (Note 16a)	85,474	1,115
Income tax prepayment	68	-
Current tax liability	-	(1,805)
Deferred tax liability	(1,428)	(1,507)
Total	**632,200**	**381,998**

The Bank had no off-balance sheet sovereign risk exposure at the reporting date, or at 31 December 2011.

In addition, liabilities to state funds are as follows:

	2012	Restated 2011
	BAM '000	BAM '000
Short-term deposits	(32,366)	(43,136)
Off-balance-sheet exposure	5	-

Exposure to local and regional (cantonal) authorities is not included in the above analysis. The Bank has no other significant concentrations of risk.

Furthermore, at the reporting date BAM 52,064 thousand *(2011: BAM 58,968 thousand)* of the Bank's balance-sheet exposure to corporate customers is secured by state guarantees.

33. Risk management (CONTINUED)

1. Credit risk (CONTINUED)

Real estate market trends

Since the real estate market in Bosnia and Herzegovina is not regulated, there is a lack of continuous and accurate statistical data that can provide accurate information regarding the trends in property prices. There are indications that a decline in property values in Bosnia and Herzegovina generally continued through 2012, whereas, on the other hand, the demand for properties is not increasing, mainly as a result of the economic trends and uncertainties.

In order to monitor the movements in the market value of residential properties, the Bank is currently developing an internal statistical model for evaluation of movements in the value of pledged properties.

Rescheduled and restructured receivables

Loan restructuring is done for clients where the focus of the business relationship shifted from making profit to mitigating losses on lending exposure at a stage when legal action for mitigating losses is not yet needed. The goal is timely identification of clients where restructuring would enable them to continue in business and to mitigate or prevent further losses for the Bank.

Restructuring activities are based on cooperation with other organisational parts of the Bank, which identify clients/exposures that should be the subject of restructuring, and include: defining the appropriate restructuring strategy, analysing restructuring applications, suggesting measures and making recommendations for restructuring, monitoring progress, monitoring the portfolio, assessing the level of impairment and the Bank's proposed measures to improve collateral coverage in order to strengthen its position in the collection of receivables.

Compared to the end of 2011, the restructured corporate portfolio has grown in volume by 35% in 2012, amounting to BAM 113,194 thousand *(2011: BAM 83,858 thousand)*. The rate of provisioning of this portfolio as of 31 December 2012 was 16% (*2011: 15%)*.

On the other hand, the restructured individuals portfolio recorded only a slight increase of 0.4%, amounting to BAM 3,903 thousand *(2011: BAM 3,889 thousand)*, with provisions amounting to 12.5% of the portfolio *(2011: 10.02%)*. Two important factors influence the lower level of restructuring for individuals: the inability to re-contract initially defined collateral instruments (primarily guarantors) and the fact that most of the outstanding liabilities of individuals are regulated by mutual agreement on settlement of debt, 5,494 of which were contracted in 2012, in the total amount of BAM 6,910 thousand *(2011: BAM 3,473, in the total amount of BAM 2,900 thousand)*.

33.Risk management (CONTINUED)

1. Credit risk (CONTINUED)

Analysis by past due days and collateral

Impairment allowance coverage of the non-performing loan portfolio is 74.7% *(2011: 70.3%)*.

Comparative information related to credit risk management disclosures in this note has not been restated as it was not practicable.

Loans to customers

	31 December 2012	31 December 2011
Retail loans	**BAM '000**	**BAM '000**
Loans that are neither past due nor impaired *(Note 33.1.a)*	1,245,455	1,242,854
Past due loans that are not impaired *(Note 33.1.b)*	8,838	5,298
Impaired loans	93,805	81,735
Gross	**1,348,098**	**1,329,887**
Less: impairment allowance	(86,017)	(72,549)
Net	**1,262,081**	**1,257,338**

	31 December 2012	31 December 2011
Corporate and state loans	**BAM '000**	**BAM '000**
Loans that are neither past due nor impaired *(Note 33.1.a)*	957,105	893,970
Past due loans that are not impaired *(Note 33.1.b)*	12,910	13,128
Impaired loans	230,643	242,284
Gross	**1,200,658**	**1,149,382**
Less: impairment allowance	(180,882)	(175,320)
Net	**1,019,776**	**974,062**

33. Risk management (CONTINUED)

1. Credit risk (CONTINUED)

The total impairment allowance for loans to customers is BAM 266.899 thousand *(2011: BAM 253,528 thousand)* of which BAM 242,276 thousand *(2011: BAM 231.720 thousand)* represents specific impairment allowances and the remaining amount of BAM 24,623 thousand *(2011: BAM 21,808 thousand)* represents IBNR calculated on a portfolio basis.

a) Loans that are neither past due nor impaired

Loans to customers are monitored and systematically reviewed. The objective of the loan portfolio monitoring is to reduce credit risk cost and improve the quality of the Bank's loan portfolio by timely identification of potentially risky customers and a structured and targeted management of the business relationship with those customers.

	Retail					Corporate and State			
	Cash and consumer loans	Credit cards and overdrafts	Housing loans	Sole traders	Total	Large	Medium	Small	Total
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
31 December 2012									
Standard monitoring	798,828	170,064	276,179	384	1,245,455	488,273	186,191	199,682	874,146
Special monitoring	-	-	-	-	-	48,681	7,432	26,846	82,959
Total	**798,828**	**170,064**	**276,179**	**384**	**1,245,455**	**536,954**	**193,623**	**226,528**	**957,105**
31 December 2011									
Standard monitoring	779,469	165,333	297,406	646	1,242,854	461,706	145,657	222,218	829,581
Special monitoring	-	-	-	-	-	28,308	11,634	24,447	64,389
Total	**779,469**	**165,333**	**297,406**	**646**	**1,242,854**	**490,014**	**157,291**	**246,665**	**893,970**

33.Risk management (CONTINUED)

1. Credit risk (CONTINUED)

b) Past due loans that are not impaired

Loans to customers less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amounts of loans to customers that were past due but not impaired for the Bank were as follows:

	Retail					Corporate and State			
	Cash and consumer loans	Credit cards and overdrafts	Housing loans	Sole traders	Total	Large	Medium	Small	Total
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
31 December 2012									
Past due up to 30 days	646	1,790	247	1	2,684	1,581	1,470	2,950	6,001
Past due 30 – 60 days	1,778	896	1,702	-	4,376	-	2,205	4,266	6,471
Past due 60-90 days	619	369	790	-	1,778	-	-	438	438
Total	**3,043**	**3,055**	**2,739**	**1**	**8,838**	**1,581**	**3,675**	**7,654**	**12,910**
Estimated value of collateral	757	-	1,017	1	1,775	1,578	1,471	4,083	7,132
31 December 2011									
Past due up to 30 days	739	123	228	3	1,093	49	647	4,632	5,328
Past due 30 – 60 days	295	1,098	1,044	-	2,437	838	422	5,009	6,269
Past due 60-90 days	567	419	782	-	1,768	-	326	1,205	1,531
Total	**1,601**	**1,640**	**2,054**	**3**	**5,298**	**887**	**1,395**	**10,846**	**13,128**
Estimated value of collateral	286	-	939	-	1,225	886	1,306	7,648	9,840

33. Risk management (CONTINUED)

1. Credit risk (CONTINUED)

Estimated values of properties pledged as collateral are based on valuations done by authorised surveyors/agency upon initial approval of a loan or possible subsequent re-evaluation, weighted by the value of the loan in the total exposure secured by the same collateral, up to the estimated value of collateral. The value of deposits and State guarantees is weighted in the same manner up to the outstanding balance of related secured exposure. Guarantors, co-debtorship and bills of exchange are not valued in the table above although they are usually required as collateral.

c) Non-performing loans (impaired loans)

The carrying value of impaired loans amounts to BAM 82,173 thousand (2011: BAM 97,830 thousand). The breakdown of the net amount of the individually impaired loans to customers, along with the fair value of related collateral held by the Bank as security, is as follows:

	Retail					Corporate and State			
	Cash and consumer loans	Credit cards and overdrafts	Housing loans	Sole traders	Total	Large	Medium	Small	Total
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
31 December 2012									
Non-performing loans	6,678	1,353	10,677	1	18,709	40,893	7,600	14,971	63,464
Estimated value of collateral	**1,028**	**-**	**7,715**	**-**	**8,743**	**36,009**	**4,977**	**10,180**	**51,166**
31 December 2011									
Non-performing loans	4,239	3,323	9,698	19	17,279	51,070	14,605	14,876	80,551
Estimated value of collateral	**106**	**-**	**7,213**	**-**	**7,319**	**36,490**	**14,605**	**14,876**	**65,971**

The Bank expects to collect the excess in the carrying value of non-performing loans from the estimated value of the related collateral from sources other than collateral.

33. Risk management (CONTINUED)

2. Liquidity risk

Liquidity risk is the potential risk that a bank will not be able to meet its obligations as scheduled, in full and without delay. It arises in the Bank's financing activities and assets and liabilities management. Adjusting its business with regard to liquidity risk is achieved through compliance with the relevant legislation, internal policies for maintenance of liquidity reserves, matching of assets and liabilities and adherence to liquidity limits set by the UniCredit Group.

ALM Department manages liquidity reserves on a daily basis, to enable the funding of clients' needs and to ensure an optimum balance between continuity and flexibility of financing through use of sources with different maturities.

The Bank has access to a diverse funding base including various types of retail and corporate and bank deposits, borrowings, subordinated debt, issued debt securities, share capital and reserves. These enhance funding flexibility and limit dependence on any one source of funds as well as generally ensure better funding cost management.

Needs for short-term liquidity are planned every month for a period of six months and controlled and matched on a daily basis.

The process of liquidity management includes developments of annual plans and development of back-up liquidity plans.

a) Structural liquidity

Structural liquidity and liquidity gaps are presented in the tables below based on the remaining contractual maturity, with the following exceptions:

1) Current accounts and demand deposits accounts as well as overdrafts of retail and corporate clients are classified using a replication portfolio methodology, which is based on a simulation GMB model, using historical data for the past 3 years.

2) Securities available for sale are classified according to assigned codes of liquidity, which represent the timeframe needed to pledge the security as collateral with a central bank or sell it on the open market.

3) The obligatory reserve is presented within the overnight time bucket in accordance with standard mapping by the UniCredit Group.

4) Non-performing loans, other assets and equity are also classified, according to standard rules set by the Group, to the longest maturity bucket. For the purpose of this disclosure, non-performing loans are loans with assigned internal ratings of 8, 9 or 10.

The classification of assets, liabilities and off-balance-sheet items in the tables below differs from the remaining part of the financial statements, as they have been prepared using management reports. Reconciliation is not practicable. Some of the main differences are as follows:

33. Risk management (CONTINUED)

2. Liquidity risk (CONTINUED)

a) Structural liquidity (CONTINUED)

- other assets include property and equipment, receivables from credit cards and other receivables;
- other liabilities include credit card payables, provisions for other assets and other fees and liabilities;
- the obligatory reserve includes a part of other funds with the Central Bank;
- assets are presented on a gross basis i.e. without deduction of impairment allowances;
- impaired loans are classified as a separate line item within other assets;
- the nominal value of derivatives is presented within off-balance sheet assets and liabilities, as appropriate;
- cash in the tables below includes only cash in hand and items in the course of collection, with current accounts being presented within loans and receivables from banks.

33. Risk management (CONTINUED)

2. Liquidity risk (CONTINUED)

a) Structural liquidity (CONTINUED)

31 December 2012 in BAM million	TOTAL	Overnight	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	3 to 10 years	Over 10 years
Gap	**(6)**	**289**	**334**	**(25)**	**76**	**(6)**	**(212)**	**(462)**
Assets	**4,213**	**723**	**769**	**247**	**680**	**570**	**930**	**294**
Balance sheet	**3,986**	**723**	**592**	**207**	**670**	**570**	**930**	**294**
Loans to and receivables from customers	*2,095*	*3*	*119*	*189*	*385*	*531*	*842*	*26*
Retail	1,077	2	32	54	184	336	454	15
Corporate	1,018	1	87	135	201	195	388	11
Mortgage loans to customers	*180*	-	*1*	*3*	*15*	*39*	*88*	*34*
Retail	180	-	1	3	15	39	88	34
Securities	*132*	*11*	*3*	-	*118*	-	-	-
Financial AFS assets	132	11	3	-	118	-	-	-
Loans to and receivables from banks	*1,098*	*591*	*469*	*15*	*23*	-	-	-
Current accounts	75	75	-	-	-	-	-	-
Deposits	507	-	469	15	23	-	-	-
Obligatory reserve	516	516	-	-	-	-	-	-
Other assets	*481*	*118*	-	-	*129*	-	-	*234*
Cash	118	118	-	-	-	-	-	-
Impaired loans	157	-	-	-	-	-	-	157
Other assets	206	-	-	-	129	-	-	77
Off-balance-sheet	***227***	**-**	***177***	***40***	***10***	**-**	**-**	**-**
Derivatives	227	-	177	40	10	-	-	-
Unused credit lines	-	-	-	-	-	-	-	-
Liabilities	**4,219**	**434**	**435**	**272**	**604**	**576**	**1,142**	**756**
Balance sheet	***3,992***	***432***	***258***	***232***	***588***	***576***	***1,150***	***756***
Demand deposits	*1,720*	*290*	*84*	*74*	*158*	*191*	*923*	-
Retail	881	147	23	23	54	67	567	-
Corporate	839	143	61	51	104	124	356	-
Time deposits	*934*	*133*	*86*	*143*	*199*	*163*	*210*	-
Retail	674	133	62	63	106	119	191	-
Corporate	260	-	24	80	93	44	19	-
Liabilities to banks	*380*	*9*	*88*	*15*	*29*	*222*	*17*	-
Borrowings	234	-	10	5	19	183	17	-
Current accounts and deposits	146	9	78	10	10	39	-	-
Other liabilities and equity	*858*	-	-	-	*102*	-	-	*756*
Equity	470	-	-	-	-	-	-	470
Other liabilities	102	-	-	-	102	-	-	-
Provisions	286	-	-	-	-	-	-	286
Issued debt securities	*100*	-	-	-	*100*	-	-	-
Off-balance-sheet	***227***	***2***	***177***	***40***	***16***	**-**	***(8)***	**-**
Derivatives	*227*	-	*177*	*40*	*10*	-	-	-
Contingent liabilities	-	*2*	-	-	*6*	-	*(8)*	-

33. Risk management (CONTINUED)

2. Liquidity risk (CONTINUED)

a) Structural liquidity (CONTINUED)

31 December 2011 in BAM million	TOTAL	Overnight	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	3 to 10 years	Over 10 years
Gap	**(74)**	**111**	**503**	**(89)**	**(67)**	**2**	**(34)**	**(500)**
Assets	**3,979**	**569**	**902**	**171**	**563**	**592**	**888**	**294**
Balance sheet	**3.763**	**569**	**688**	**169**	**563**	**592**	**888**	**294**
Loans to and receivables from customers	*2.037*	*9*	*97*	*155*	*401*	*553*	*798*	*24*
Retail	1.063	2	30	54	187	345	434	11
Corporate	974	7	67	101	214	208	364	13
Mortgage loans to customers	*177*	*-*	*1*	*3*	*15*	*39*	*90*	*29*
Retail	177	-	1	3	15	39	90	29
Securities	70	41	2	-	27	-	-	-
Financial AFS assets, and held-to-maturity assets	70	41	2	-	27	-	-	-
Loans to and receivables from banks	*997*	*398*	*588*	*11*	*-*	*-*	*-*	*-*
Current accounts	36	36	-	-	-	-	-	-
Deposits	599	-	588	11	-	-	-	-
Obligatory reserve	362	362	-	-	-	-	-	-
Other assets	*482*	*121*	*-*	*-*	*120*	*-*	*-*	*241*
Cash	121	121	-	-	-	-	-	-
Impaired loans	159	-	-	-	-	-	-	159
Other assets	202	-	-	-	120	-	-	82
Off-balance-sheet	***216***	***-***	***214***	***2***	***-***	***-***	***-***	***-***
Derivatives	216	-	214	2	-	-	-	-
Unused credit lines	-	-	-	-	-	-	-	-
Liabilities	**4,053**	**458**	**399**	**260**	**630**	**590**	**922**	**794**
Balance sheet	***3,837***	***456***	***185***	***258***	***625***	***590***	***929***	***794***
Demand deposits	*1,592*	*272*	*116*	*101*	*211*	*249*	*587*	*56*
Retail	823	120	41	38	83	108	392	41
Corporate	769	152	75	63	128	141	195	15
Time deposits	*887*	*176*	*61*	*86*	*247*	*137*	*180*	*-*
Retail	628	164	53	54	126	58	173	-
Corporate	259	12	8	32	121	79	7	-
Liabilities to banks	*389*	*8*	*8*	*71*	*36*	*104*	*162*	*-*
Borrowings	261	-	8	6	26	59	162	-
Current accounts and deposits	128	8	-	65	10	45	-	-
Other liabilities and equity	*869*	*-*	*-*	*-*	*131*	*-*	*-*	*738*
Equity	470	-	-	-	-	-	-	470
Other liabilities	131	-	-	-	131	-	-	-
Provisions	268	-	-	-	-	-	-	268
Issued debt securities	*100*	*-*	*-*	*-*	*-*	*100*	*-*	*-*
Off-balance-sheet	***216***	***2***	***214***	***2***	***5***	***-***	***(7)***	***-***
Derivatives	*216*	*-*	*214*	*2*	*-*	*-*	*-*	*-*
Contingent liabilities	*-*	*2*	*-*	*-*	*5*	*-*	*(7)*	*-*

33. Risk management (CONTINUED)

2. Liquidity risk (CONTINUED)

b) Future cash flows from interest bearing liabilities

Future cash flows payable in respect of the Bank's interest-bearing liabilities (including principal and interest to maturity) are shown in the tables below.

31 December 2012	Up to 1 month BAM '000	1 month to 3 months BAM '000	3 months to 1 year BAM '000	1 year to 5 years BAM '000	Over 5 years BAM '000	Total BAM '000
Financial liabilities						
Current accounts and deposits from banks	10,970	88,147	12,782	42,010	-	153,909
Current accounts and deposits from customers	1,684,496	178,484	426,741	412,232	15,823	2,717,776
Interest-bearing borrowings	13,084	15,680	19,788	173,709	6,097	228,358
Subordinated debt	-	594	294	20,435	-	21,323
Issued debt securities	-	1,022	101,154	-	-	102,176
Total expected outflows	**1,708,550**	**283,927**	**560,759**	**648,386**	**21,920**	**3,223,542**

31 December 2011	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Financial liabilities						
Current accounts and deposits from banks	8,461	64,790	9,990	46,173	-	129,414
Current accounts and deposits from customers	1,534,149	103,651	448,190	370,149	74,022	2,530,161
Interest-bearing borrowings	9,253	6,184	26,167	241,271	9,500	292,375
Subordinated debt	-	410	414	21,776	-	22,600
Issued debt securities	-	812	1,890	102,809	-	105,511
Total expected outflows	**1,551,863**	**175,847**	**486,651**	**782,178**	**83,522**	**3,080,061**

33. Risk management (CONTINUED)

3. Market risk

Market risk is the risk of general and specific movements and changes in market variables having an adverse effect on profit or loss and the financial position of the Bank. The main risk segments are interest rate risk, credit spread risk, currency risk and equity risk.

Market risk is defined as the effect that price changes in the market have on the income statement and balance sheet of the Bank. Basic risk factors include:

- interest rate risk;
- credit spread risk;
- currency risk and;
- equity risk.

Overall exposure to market risks is monitored within Risk Management using various methodologies and techniques of risk measurement.

The existing limits of market risks are reviewed at least once a year. Alterations to the limits of the Group are coordinated by Zagrebačka banka.

In addition to development and implementation of techniques for measuring market risk, the Bank continually works on improving its business processes and quality of data.

In 2012 market risk measurement techniques were improved by the introduction of parameters for controlling the influence of changes in interest rate spreads for fixed income securities – CPV (credit spread basis point).

Market risk measurement techniques:

a) Value at Risk

Value-at-Risk methodology (VaR) is used to estimate the market risk of the positions held and the maximum potential losses expected by the Bank.

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the expected maximum amount that the Bank might lose, to a predefined level of confidence and for a certain holding period until positions could be closed. Loss can occur in the overall or individual positions, based on assumptions of various market variables.

The risk model calculates VaR daily with a confidence level of 99%. The calculation is based on the daily observations indicators data obtained in the last two years.

33. Risk management (CONTINUED)

3. Market risk (CONTINUED)

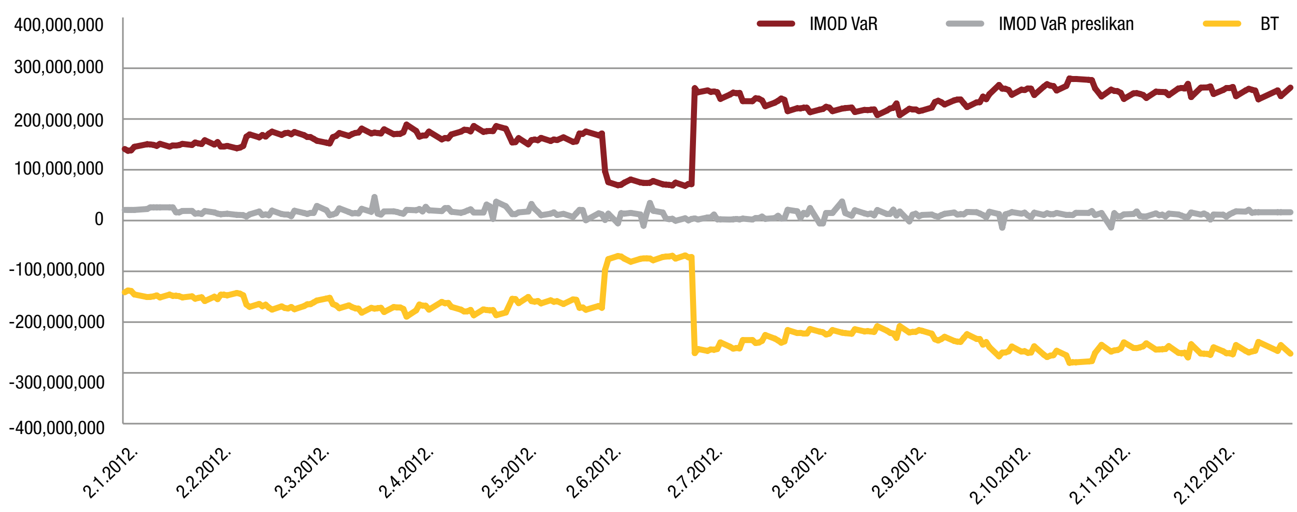
a) Value at Risk (CONTINUED)

VaR according to risk types in 2012 and 2011 is as follows:

BAM '000	Minimum 2012	Average 2012	Maximum 2012	End of the year 2012
Interest risk	(68)	(193)	(264)	(251)
Currency risk	0	(2)	(5)	(1)
Total VaR	**(68)**	**(198)**	**(281)**	**(263)**

BAM '000	Minimum 2011	Average 2011	Maximum 2011	End of the year 2011
Interest risk	(200)	(277)	(371)	(277)
Currency risk	(1)	(5)	(13)	(3)
Total VaR	**(204)**	**(278)**	**(370)**	**(273)**

In addition to daily monitoring of VaR indicators the Bank also performs back testing by calculating changes in the portfolio value. All synthetic negative changes in market values that are above VaR are considered to be backtesting violations.



There were no backtesting violations in 2012.

33. Risk management (CONTINUED)

3. Market risk (CONTINUED)

b) Stress tests

Stress-testing is used to evaluate the effect of market risks on the Bank's portfolio. In the stress-testing process the Bank currently covers the following risk categories: foreign exchange risk, interest rate risk and short-term liquidity risk.

- Currency risk is tested for individual currencies and currency groups - testing includes appreciation and depreciation shocks of 5%, 10% and 30%.
- Interest rate risk is tested by each currency for the Bank's overall position. The scenarios include parallel shifts in interest rates by 200 basis points, including various shocks on currency interest rate curves.

Testing is performed monthly.

4. Currency risk

Currency risk is the risk of losses caused by adverse exchange rate movements. Foreign currency exposure arises from credit, deposit-taking, investment and trading activities. It is monitored daily in accordance with regulations and internally set limits by UniCredit Group, for each currency and for total assets and liabilities denominated in or linked to foreign currency.

Supervision is conducted by individual currencies in total amounts for all assets and liabilities denominated in foreign currency or containing a foreign currency revaluation clause.

Currency risk management is performed in accordance with UniCredit Group standards by setting principles and limits for foreign currency exposures and by monitoring exposures against limits of open foreign currency positions stated in absolute values. The Group is trying to optimise the gap between assets and liabilities denominated in foreign currency by aligning its positions with set limits. Currency risk is measured daily using VaR techniques.

Currency risk stress testing includes appreciation and depreciation shocks for all individually significant currencies as well as currency groups.

5. Interest rate risk

Interest rate risk represents the risk of decrease in asset values caused by adverse interest rate changes. Interest rate changes affect the net present value of future cash flows and consequently net interest income.

Interest rate change risk sources are:

- repricing risk resulting from unfavourable changes in the fair value of assets and liabilities in the remaining period until the next interest rate change;
- yield curve risk as the risk of changes in shape and slope of yield curve; and
- basis risk as the risk of different base rates of corresponding asset and liabilities (e.g. EURIBOR vs LIBOR)

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33. Risk management (CONTINUED)

5. Interest rate risk (CONTINUED)

Risk is measured by calculating the net present value of a change in the value of the portfolio in a scenario where the interest rate changes by 0.01% (1 basis point) with the basis point value (BPV) limit applied as the sensitivity measure according to currencies and time periods. Daily compliance limits are set by UniCredit Group.

BPV limits are monitored through an internal model, IMOD, which is also used for the calculation of VaR (developed by the UniCredit Group).

Credit spread risk

Credit spread risk is measured for fixed-interest-rate securities. Risk is quantified and limited by credit-spread basis-point value (CPV).

CPV represents the risk of changes in bond prices resulting from changes in credit risk additionally limiting investments in bonds given their volume and duration. It is similar to a BPV indicator and measures the impact of a credit spread change by 0.01% (1 basis point) on the change in the value of a bond portfolio. BPV limits the total interest rate sensitivity, while CPV additionally limits investments in bonds.

6. Operational risk

The Bank is subject to operational risk in all its business activities, hence attempts to implement the culture and awareness of the importance of operational risk management, throughout its organisational structure.

The Bank established an appropriate system for recognising, measuring, grading and monitoring of operational risks, aiming at its optimum management and reduction by using the positive experience of the Group regarding operational risks, standards and principles defined by the local regulator and the Basel Committee as well as its own findings based on its own experience in this area. Operational risk management is inbuilt throughout the entire organisational structure of the Bank, through regular strategic management and supervision. In this way the Bank has a special focus on continuous analysis and development of solutions to avoid, control and transfer operational risk to third parties.

The Bank uses standard procedures within its established operational risk management system, which include gathering information about default events (including monitoring of events in which the operational risk is associated with other risks - particularly credit and market risk), monitoring key risk indicators, assessing operational risk when implementing new products/projects/changes, scenario analysis and analysis and reporting on the Bank's exposure to operational risk, which also includes reporting on the results of operational risk management.

7. Capital management

In compliance with laws, regulations and internal acts the Bank monitors and reports quarterly to regulators on its guarantee capital, risk-weighted assets and capital adequacy ratios.

33. Risk management (CONTINUED)

7. Capital management (CONTINUED)

Although not required by the local regulator, which bases its capital requirements on Basel I standards and a partial implementation of the Basel II approach for operating risks, the Bank as a member of UniCredit Group also monitors and reports on capital adequacy according to Basel II methodology as required. The Bank is also preparing for the implementation of the Basel III standards.

Through its management reporting the Bank also regularly monitors capital movements, capital adequacy ratios as well as all changes in methodology which will have an impact on its capital.

During 2012 the Bank has been in compliance with all regulatory capital requirements and according to the local regulations had a capital adequacy ratio of 16.5% as at 31 December 2012.

The recognition of regulatory reserves for credit losses and the calculation of similar differences between IFRS and local credit risk provisions and their inclusion in local capital adequacy assessment is explained in Note 3e.

Notwithstanding increased deductions in respect of regulatory reserves, the Bank had a capital adequacy ratio of 16.5% at 31 December 2012. The capital adequacy ratio according to the Basel II methodology was also significantly above required levels in 2012.

Under local requirements, the Bank's net capital for monitoring capital adequacy consists of:

- Tier 1 capital: ordinary shares (reduced by treasury shares and intangible assets); share premium; and retained profit and other reserves arising from distribution of retained profit, excluding regulatory reserves for credit losses, which are non-distributable
- Tier 2 capital: preference shares (fully paid in cash); profit for the year audited and certified by the Bank's external auditor; subordinated debt; and an allowance for general provisions calculated at prescribed rates set by the regulator (see below).
- The allowance for general provision included as Tier 2 capital does not comprise provisions actually recognised by the Bank in its financial statements. Rather, it represents an amount calculated on eligible assets (performing balance-sheet and off-balance-sheet exposure as defined by the Agency) at rates prescribed by the Agency. As explained in Note 3E the Agency also requires amounts equivalent to specific provisions calculated in accordance with Agency rules to be excluded or deducted from capital for capital adequacy assessment purposes, to the extent that those specific provisions exceed the total impairment allowances recognised by the Bank in the financial statements. In accordance with the above requirements, the Bank has excluded from capital an amount of BAM 38,352 thousand of equity recognised in its financial statements, and included an amount of BAM 57,192 thousand which is additional to the equity recognised in the financial statements, thereby increasing its reported equity by BAM 18,840 thousand for the purposes of capital adequacy assessment in respect of credit risk adjustments (reported equity is also adjusted for other items, such as subordinated debt and intangible assets).

Total weighted risk used for calculation of the capital adequacy includes:

- risk-weighted assets and credit equivalents and
- weighted operative risk.

33. Risk management (CONTINUED)

7. Capital management (CONTINUED)

The composition of the Bank's net capital and ratios for the years ended 31 December 2012 and 2011 is given in the table below (information on risk-weighted assets is unaudited at the date of issuance of this report).

	2012	2011
	BAM '000	BAM '000
Share capital – Tier 1 capital		
Ordinary shares	119,011	119,011
Treasury shares	(81)	(81)
Share premium	48,317	48,317
Reserves	281,878	282,171
Intangible assets	(18,106)	(18,578)
Total share capital	**431,019**	**430,840**
Additional capital - Tier 2 capital		
Allowance for general provision under Agency rules	57,192	58,179
Preference shares	184	184
Subordinated debt	**19,558**	**19,558**
Total additional capital	**76,934**	**77,921**
Deductions from capital		
Increase in regulatory reserve for credit losses calculated in 2012	(17,670)	-
Total deductions from capital	**(17,670)**	**-**
Net capital	**490,283**	**508,761**
Risk weighted assets		
Credit-risk-weighted assets	2,741,057	2,718,561
Other weighted assets	237,155	237,846
Total risk weighted assets	**2,978,212**	**2,956,407**
Capital adequacy rate	**16.5%**	**17.2%**

34. Maturity analysis

The tables below present the assets and liabilities of the Bank at 31 December 2012 and 2011 classified into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date except for debt securities available for sale which have been classified in accordance with their secondary liquidity characteristics as maturing within one month and obligatory reserve which has been classified in the maturity period within one month. Equity securities, that are part of assets and liabilities which do not have contractual maturity, are classified in the maturity period of 1 year to 5 years, and all other positions over 5 years.

In this note comparative figures have not been adjusted for the reclassifications referred to in Note 39, since it was not practicable.

	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
31 December 2012	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**
Assets						
Cash and cash equivalents	469,272	-	-	-	-	469,272
Obligatory reserve with Central Bank	236,965	-	-	-	-	236,965
Loans to and receivables from banks	469,063	15,000	26,022	-	-	510,085
Financial assets available for sale	133,199	-	-	216	-	133,415
Financial assets at fair value through profit or loss	5	-	-	-	-	5
Loans to and receivables from customers	256,447	231,869	483,327	916,554	393,660	2,281,857
Income tax prepayment	-	-	68	-	-	68
Other assets	34,584	148	822	-	-	35,554
Property, equipment and intangible assets	-	-	-	-	76,973	76,973
Total assets	**1,599,535**	**247,017**	**510,239**	**916,770**	**470,633**	**3,744,194**
Liabilities, equity and reserves						
Current accounts and deposits from banks	10,956	88,013	12,704	41,072	-	152,745
Current accounts and deposits from customers	1,683,910	176,616	418,199	362,166	13,043	2,653,934
Financial liabilities at fair value through P&L	4	-	-	-	-	4
Interest-bearing borrowings and subordinated debt	10,245	5,318	19,436	192,956	6,097	234,052
Other liabilities	58,934	-	4,237	1,919	-	65,090
Issued debt securities	-	211	100,140	-	-	100,351
Provisions for liabilities and charges	2,346	1,955	4,630	2,901	1,265	13,097
Deferred tax liability	-	-	-	1,428	-	1,428
Equity	-	-	-	-	523,493	523,493
Total liabilities and equity	**1,766,395**	**272,113**	**559,346**	**602,442**	**543,898**	**3,744,194**
Maturity gap	(166,860)	(25,096)	(49,107)	314,328	(73,265)	-

34. Maturity analysis (CONTINUED)

31 December 2011	Up to 1 month BAM '000	1 to 3 months BAM '000	3 months to 1 year BAM '000	1 year to 5 years BAM '000	Over 5 years BAM '000	Total BAM '000
Assets						
Cash and cash equivalents	283.193	-	-	-	-	283.193
Obligatory reserve with Central Bank	228.682	-	-	-	-	228.682
Loans to and receivables from banks	581.028	18.000	3.175	-	-	602.203
AFS financial assets	70.749	-	-	216	-	70.965
Financial assets at fair value through P&L	2	-	-	-	-	2
Loans to and receivables from customers	235.532	190.056	501.680	930.160	373.972	2.231.400
Accrued interest and other assets	44.975	172	316	-	-	45.463
Property, equipment and intangible assets	-	-	-	-	82,099	82,099
Total assets	**1.444.161**	**208.228**	**505.171**	**930.376**	**456.071**	**3.544.007**
Liabilities, equity and reserves						
Current accounts and deposits from banks	8.372	64.542	9.779	44.984	-	127.677
Current accounts and deposits from customers	1.533.896	102.926	438.899	330.518	53.311	2.459.550
Financial liabilities at fair value through P&L	1	-	-	-	-	1
Interest-bearing borrowings and subordinated debt	8.128	5.938	25.720	214.383	8.497	262.666
Accrued interest and other liabilities	69.998	1.102	4.486	23.999	4.590	104.175
Issued debt securities	-	-	-	100.000	-	100.000
Provisions for liabilities and charges	1.226	1.834	4.536	6.717	2.007	16.320
Current tax liability	-	-	1.805	-	-	1.805
Deferred tax liability	-	-	-	1.507	-	1.507
Equity	-	-	-	-	470.306	470.306
Total liabilities and equity	**1.621.621**	**176.342**	**485.225**	**722.108**	**538.711**	**3.544.007**
Maturity gap	**(177.460)**	**31.886**	**19.946**	**208.268**	**(82.640)**	**-**

35. Interest rate repricing, gap analysis and amounts subject to fixed interest rates

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The following table presents the estimate of the interest rate risk for the Bank as at 31 December 2012 and 2011, showing the earlier of maturity or possibility of change of interest rate, and is not necessarily indicative of the positions at other times. The tables provide some indication of the sensitivities of the Bank's earnings to movements in interest rates. Earnings will also be affected by the currency of the assets and liabilities.

In this note comparative figures have not been adjusted for the reclassifications referred to in Note 39, since it was not practicable.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total	Fixed interest rate
31 December 2012	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**
Assets								
Cash and cash equivalents	357,258	-	-	-	-	112,014	469,272	-
Obligatory reserve with Central Bank	236,963	-	-	-	-	2	236,965	-
Loans to and receivables from banks	507,143	-	2,900	-	-	42	510,085	471,921
AFS financial assets	132,632	-	-	-	-	783	133,415	133,199
Financial assets at fair value through P&L	-	-	-	-	-	5	5	-
Loans to and receivables from customers	1,516,217	172,966	483,594	81,851	14,633	12,596	2,281,857	373,417
Income tax prepayment	-	-	-	-	-	68	68	-
Other assets	-	-	-	-	-	35,554	35,554	-
Property, equipment and intangible assets	-	-	-	-	-	76,973	76,973	-
Total assets	**2,750,213**	**172,966**	**486,494**	**81,851**	**14,633**	**238,037**	**3,744,194**	**978,537**
Liabilities and equity								
Current accounts and deposits from banks	14,846	131,985	5,867	-	-	47	152,745	93,880
Current accounts and deposits from customers	2,184,126	118,021	198,429	115,829	11,770	25,759	2,653,934	500,853
Financial liabilities at fair value through P&L	-	-	-	-	-	4	4	-
Interest-bearing borrowings and subordinated debt	43,736	161,663	23,695	3,987	-	971	234,052	5,431
Other liabilities	-	-	-	-	-	65,090	65,090	-
Issued debt securities	-	60,000	40,000	-	-	351	100,351	-
Provisions for liabilities and charges	-	-	-	-	-	13,097	13,097	-
Deferred tax liability	-	-	-	-	-	1,428	1,428	-
Equity	-	-	-	-	-	523,493	523,493	-
Total liabilities and equity	**2,242,708**	**471,669**	**267,991**	**119,816**	**11,770**	**630,240**	**3,744,194**	**600,164**
Interest rate gap	**507,505**	**(298,703)**	**218,503**	**(37,965)**	**2,863**	**(392,203)**	**-**	**378,373**

35. Interest rate repricing, gap analysis and amounts subject to fixed interest rates (CONTINUED)

31 December 2011	Up to 1 month BAM '000	1 month to 3 months BAM '000	3 months to 1 year BAM '000	1 year to 5 years BAM '000	Over 5 years BAM '000	Non-interest bearing BAM '000	Total BAM '000	Fixed interest rate BAM '000
Assets								
Cash and cash equivalents	169,809	-	-	-	-	113,384	283,193	-
Obligatory reserve with Central Bank	228,682	-	-	-	-	-	228,682	-
Loans to and receivables from banks	602,203	-	-	-	-	-	602,203	581,028
AFS financial assets	70,749	-	-	-	-	216	70,965	70,965
Financial assets at fair value through P&L	-	-	-	-	-	2	2	-
Loans to and receivables from customers	1,567,961	138,336	463,426	52,950	8,727	-	2,231,400	264,105
Accrued interest and other assets	-	-	-	-	-	45.463	45,463	-
Property, equipment and intangible assets	-	-	-	-	-	82,099	82,099	-
Total assets	**2,639,404**	**138,336**	**463,426**	**52,950**	**8,727**	**241,164**	**3,544,007**	**916,098**
Liabilities and equity								
Current accounts and deposits from banks	53,356	64,542	9,779	-	-	-	127,677	74,322
Current accounts and deposits from customers	2,071,510	38,351	206,550	69,581	51,725	21,833	2,459,550	383,322
Financial liabilities at fair value through P&L	1	-	-	-	-	-	1	-
Interest-bearing borrowings and subordinated debt	53,767	187,897	15,494	5,508	-	-	262,666	8,882
Accrued interest and other liabilities	-	-	-	-	-	104,175	104,175	-
Issued debt securities	-	60,000	40,000	-	-	-	100,000	-
Provisions for liabilities and charges	-	-	-	-	-	16,320	16,320	-
Current tax liability						1,805	1,805	-
Deferred tax liability	-	-	-	-	-	1,507	1,507	-
Equity	-	-	-	-	-	470,306	470,306	-
Total liabilities and equity	**2,178,634**	**350,790**	**271,823**	**75,089**	**51,725**	**615,946**	**3,544,007**	**466,526**
Interest rate gap	**460,770**	**(212,454)**	**191,603**	**(22,139)**	**(42,998)**	**(374,782)**	**-**	**449,572**

36. Effective interest rates

The table below presents effective interest rates applicable to various balance-sheet categories calculated as the weighted average interest rates for the period:

	Effective interest rates	
	2012	2011
	%	%
Cash and cash equivalents	0.03	0.62
Obligatory reserve with the Central Bank	0.03	0.58
Financial assets available for sale	3.21	1.59
Loans to and receivables from banks	0.26	0.73
Loans and receivables from customers	7.18	7.60
Current accounts and deposits from banks	1.55	2.23
Current accounts and deposits from customers	1.72	1.71
Interest-bearing borrowings	3.24	3.60
Subordinated debt	3.64	3.96
Issued debt securities	2.33	2.68

37. Foreign exchange positions

The Bank had the following foreign exchange 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 currencies. The domestic currency value of the principal balances and interest payments are therefore determined by movements in foreign currencies. These balances, which have foreign exchange risk, are included in the column EURO linked.

In this note comparative figures have not been adjusted for the reclassifications referred to in Note 39, since it was not practicable.

	EURO	EURO linked	EURO currency total	USD	Other foreign currencies	BAM	Total
31 December 2012	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**	**BAM '000**
Assets							
Cash and cash equivalents	66,181	-	66,181	5,966	36,135	360,990	469,272
Obligatory reserves with Central Bank	-	-	-	-	-	236,965	236,965
Loans to and receivables from banks	329,335	-	329,335	132,494	10,313	37,943	510,085
AFS financial assets	12,201	10,146	22,347	-	3,352	107,716	133,415
Financial assets at fair value through P&L	5	-	5	-	-	-	5
Loans to and receivables from customers	21,015	1,329,181	1,350,196	-	29	931,632	2,281,857
Income tax prepayment	-	-	-	-	-	68	68
Other assets	748	-	748	182	85	34,539	35,554
Property, equipment and other intangible assets	-	-	-	-	-	76,973	76,973
Total assets	**429,485**	**1,339,327**	**1,768,812**	**138,642**	**49,914**	**1,786,826**	**3,744,194**
Liabilities and equity							
Current accounts and deposits from banks	145,008	-	145,008	-	-	7,737	152,745
Current accounts and deposits from customers	1,061,695	54,813	1,116,508	138,047	46,959	1,352,420	2,653,934
Financial liabilities at fair value through P&L	4	-	4	-	-	-	4
Interest-bearing borrowings and subordinated debt	227,036	5,269	232,305	-	-	1,747	234,052
Other liabilities	12,262	17,762	30,024	626	440	34,000	65,090
Issued debt securities	351	100,000	100,351	-	-	-	100,351
Provisions for liabilities and charges	661	331	992	8	2	12,095	13,097
Deferred tax liability	-	-	-	-	-	1,428	1,428
Equity	-	-	-	-	-	523,493	523,493
Total liabilities and equity	**1,447,017**	**178,175**	**1,625,192**	**138,681**	**47,401**	**1,932,920**	**3,744,194**
Net foreign exchange position	**(1,017,532)**	**1,161,152**	**143,620**	**(39)**	**2,513**	**(146,094)**	**-**

37. Foreign exchange positions (CONTINUED)

31 December 2011	EURO BAM '000	EURO linked BAM '000	EURO currency total BAM '000	USD BAM '000	Other foreign currencies BAM '000	BAM BAM '000	Total BAM '000
Assets							
Cash and cash equivalents	40,499	-	40,499	5,079	34,361	203,254	283,193
Obligatory reserves with Central Bank	-	-	-	-	-	228,682	228,682
Loans to and receivables from banks	427,741	-	427,741	127,124	9,339	37,999	602,203
AFS financial assets	45,395	-	45,395	-	2,048	23,522	70,965
Financial assets at fair value through P&L	2	-	2	-	-	-	2
Loans to and receivables from customers	47,434	1,299,785	1,347,219	-	30	884,151	2,231,400
Accrued interest and other assets	2,301	10,588	12,889	260	92	32,222	45,463
Property, equipment and other intangible assets	-	-	-	-	-	82,099	82,099
Total assets	**563,372**	**1,310,373**	**1,873,745**	**132,463**	**45,870**	**1,491,929**	**3,544,007**
Liabilities and equity							
Current accounts and deposits from banks	125,543	-	125,543	-	-	2,134	127,677
Current accounts and deposits from customers	1,051,726	88,701	1,140,427	132,621	44,504	1,141,998	2,459,550
Financial liabilities at fair value through P&L	1	-	1	-	-	-	1
Interest-bearing borrowings and subordinated debt	259,434	-	259,434	-	-	3,232	262,666
Accrued interest and other liabilities	30,441	6,418	36,859	701	285	66,330	104,175
Issued debt securities	-	100,000	100,000	-	-	-	100,000
Provisions for liabilities and charges	309	533	842	13	1	15,464	16,320
Current tax liability	-	-	-	-	-	1,805	1,805
Deferred tax liability	-	-	-	-	-	1,507	1,507
Equity	-	-	-	-	-	470,306	470,306
Total liabilities and equity	**1,467,454**	**195,652**	**1,663,106**	**133,335**	**44,790**	**1,702,776**	**3,544,007**
Net foreign exchange position	**(904,082)**	**1,114,721**	**210,639**	**(872)**	**1,080**	**(210,847)**	**-**

38. Fair values of financial assets and liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled between knowledgeable and willing parties on an arm's length basis.

Financial instruments available for sale and at fair value through profit or loss are measured at fair value. Loans and receivables are measured at amortised cost net of impairment allowance.

The following summarises the major methods and assumptions used in estimating the fair value of financial instruments.

Loans to and receivables from customers

The fair value of loans to and receivables from customers is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. Expected future cash flows are estimated considering credit risk and any indication of impairment which is determined in accordance with IFRS. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans. Under the assumption of an market interest rate of for the year 8.39% p.a. for retail and 7.08% p.a. for corporate *(2011: retail interest rate was 8.13% p.a., and corporate interest rate was 7.45% p.a.*), expected future cash flows on loans with fixed interest rate are discounted to present value, while lombard loans are excluded from the calculation. Based on the above assumptions, management has estimated a fair value of corporate loans including State of BAM 1.020,946 thousand *(2011: BAM 976,774 thousand)*, which is BAM 1,170 thousand higher than their carrying value *(2011: BAM 288 thousand higher than their carrying value)*. Management has estimated, on the same basis, a fair value of loans to retail customers of BAM 1,262,494 thousand *(2011: BAM 1,254,991 thousand)*, which is BAM 413 thousand higher than their carrying value *(2011: BAM 46 thousand higher than their carrying value)*.

Loans to and receivables from banks

Placements with banks mostly represent overnight deposits, hence there is no significant difference between the fair value of these deposits and their carrying value.

Deposits from banks and customers

For demand deposits with no defined maturities, fair value is considered to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values. Under the assumption of an average market interest rate of 3.37% for the year on corporate and 3.22% on retail deposits *(2011: corporate of 3.69% and retail of 3.76%)* and taking into account latest market developments, expected future cash flows on long-term corporate and retail deposits with fixed interest rates are discounted to present value. Deposits linked to lombard loans are excluded from the calculation.

38. Fair values of financial assets and liabilities (CONTINUED)

Deposits from banks and customers (CONTINUED)

Based on the above assumption, management has estimated a fair value of current accounts and deposits from corporate clients of BAM 1,090,872 thousand, which is BAM 530 thousand higher than their carrying value *(2011: BAM 1,024,322 thousand which was BAM 574 thousand higher than their carrying value)* and from retail customers of BAM 1,561,208 thousand, which is BAM 1,324 thousand lower than their carrying value *(2011: BAM 1,453,712 thousand, which was BAM 698 thousand lower than the carrying value)*.

Interest-bearing borrowings

The majority of the Bank's long-term interest-bearing debt is at variable interest rates and its fair value is estimated as the present value of future cash flows, discounted at the interest rate available at the reporting date to the Bank for new debt of similar type and remaining maturity. Management has estimated that the carrying value of borrowings is not significantly different from their fair value.

39. Restatement of comparatives

In 2012 the Bank changed the presentation of accrued interest to present it in the same category as that in which the principal amount is disclosed in the statement of financial position. Previously accrued interest receivables and payables were included in other assets and other liabilities, respectively.

Note a)

Previously, the Bank presented interest receivable within accrued interest and other assets. Under the new presentation, it is disclosed in the same category as the principal of the underlying financial assets. The reclassification resulted in a decrease of accrued interest and other assets in the amount of BAM 14,182 thousand as at 31 December 2011 *(1 January 2011: 14,031 thousand)* and an increase of:

- obligatory reserve with the Central Bank of BIH in the amount of BAM 68 thousand as at 31 December 2011 *(1 January 2011: BAM 211 thousand)*,
- loans to and receivables from banks in the amount of BAM 51 thousand as at 31 December 2011 *(1 January 2011: BAM 62 thousand)* and
- loans to and receivables from customers in the amount of BAM 13,219 thousand as at 31 December 2011 *(1 January 2011: BAM 13,177 thousand)*.

The reclassifications have not affected profit for the year 2011 nor retained earnings as at 1 January 2011 and 31 December 2011.

Note b)

Previously, the Bank reduced accrued interest and other assets by the amount of portfolio-based provisions against interest receivable, whereas according to the new presentation, loans to and receivables from customers are reduced. The reclassification resulted in an increase of other assets and a decrease of loans and advances to customers in the amount of BAM 128 thousand as at 31 December 2011 *(1 January 2011: BAM 244 thousand)*.

The reclassification has not affected profit for the year 2011 nor retained earnings as at 1 January 2011 and 31 December 2011. In profit or loss, BAM 118 thousand were reclassified from "Other impairment losses and provisions" to "Impairment losses on loans and receivables from customers".

39. Restatement of comparatives (CONTINUED)

Note c)

Previously, the Bank presented interest payable within accrued interest and other liabilities. Under the new presentation, it is displayed within the positions of the underlying financial liabilities. The reclassification resulted in a decrease of other liabilities in the amount of BAM 21,172 thousand as at 31 December 2011 *(1 January 2011: 22,278 thousand)* and an increase of:

- current accounts and deposits from banks in the amount of BAM 210 thousand as at 31 December 2011 *(1 January 2011: BAM 96 thousand)*
- current accounts and deposits from customers in the amount of BAM 18,608 thousand as at 31 December 2011 *(1 January 2011: BAM 20,050 thousand)*
- interest-bearing borrowings in the amount of BAM 1,486 thousand as at 31 December 2011 *(1 January 2011: BAM 1,411 thousand)*
- subordinated debt in the amount of BAM 215 thousand as at 31 December 2011 *(1 January 2011: BAM 202 thousand)*
- issued debt securities in the amount of BAM 653 thousand as at 31 December 2011 *(1 January 2011: BAM 519 thousand)*

Note d)

Deferred loan origination fees, which, as required by IAS 18 Income constitute part of the effective interest rate, were previously classified within accrued interest and other liabilities, in an amount of BAM 13,188 thousand as at 31 December 2011 *(1 January 2011: BAM 13,022 thousand)* were reclassified to loans and receivables from customers, resulting in a decrease of both categories in the same amount.

The reclassification has not affected profit or loss for the year 2011 or retained earnings as at 1 January 2011 and 31 December 2011.

39. Restatement of comparatives (CONTINUED)

		31.12.2011.			01.01.2011.		
		As previously reported	Reclassification effects	As restated	As previously reported	Reclassification effects	As restated
	Note	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Assets							
Cash and cash equivalents		283,193	-	283,193	621,329	-	621,329
Obligatory reserve with Central Bank	*a)*	228,682	68	228,750	326,453	221	326,674
Loans to and receivables from banks	*a)*	602,203	51	602,254	361,022	62	361,084
Financial assets available for sale	*a)*	70,965	844	71,809	40,958	571	41,529
Financial assets at fair value through profit or loss		2	-	2	11	-	11
Loans and receivables from customers	*a), b) and d)*	2,231,400	31	2,231,431	2,124,525	155	2,124,680
Income tax prepayment		-		-	1,605		1,605
Accrued interest and other assets	*a) and b)*	45,463	(14,182)	31,281	49,561	(14,031)	35,530
Investment in associate		-	-	-	1,787	-	1,787
Property and equipment		63,521	-	63,521	66,073	-	66,073
Intangible assets		18,578	-	18,578	21,826	-	21,826
Total assets		**3,544,007**	**(13,188)**	**3,530,819**	**3,615,150**	**(13,022)**	**3,602,128**
Liabilities							
Current accounts and deposits from banks	*c)*	127,677	210	127,887	128,208	96	128,304
Current accounts and deposits from customers	*c)*	2,459,550	18,608	2,478,158	2,647,347	20,050	2,667,397
Financial liabilities at fair value through profit or loss		1	-	1	9	-	9
Interest-bearing borrowings	*c)*	243,108	1,486	244,594	186,938	1,411	188,349
Subordinated debt	*c)*	19,558	215	19,773	23,470	202	23,672
Accrued interest and other liabilities	*c) and d)*	104,175	(34,360)	69,815	93,657	(35,300)	58,357
Issued debt securities	*c)*	100,000	653	100,653	100,000	519	100,519
Provisions for liabilities and charges		16,320	-	16,320	14,487	-	14,487
Current tax liability		1,805	-	1,805	-	-	
Deferred tax liability		1,507	-	1,507	997	-	997
Total liabilities		**3,073,701**	**(13,188)**	**3,060,513**	**3,195,113**	**(13,022)**	**3,182,091**
Equity							
Issued share capital		119,195	-	119,195	119,195	-	119,195
Treasury shares		(81)	-	(81)	(81)	-	(81)
Share premium		48,317	-	48,317	48,317	-	48,317
Fair value reserve		533	-	533	248	-	248
Regulatory reserves for credit losses		20,682	-	20,682	20,682	-	20,682
Retained earnings		281,660	-	281,660	231,676	-	231,676
Total equity		**470,306**	**-**	**470,306**	**420,037**	**-**	**420,037**
Total liabilities and equity		**3,544,007**	**(13,188)**	**3,530,819**	**3,615,150**	**(13,022)**	**3,602,128**

39. Restatement of comparatives (CONTINUED)

	Note	As previously reported BAM '000	Reclassification effects BAM '000	As restated BAM '000
Interest income		192,640	-	192,640
Interest expense		(49,676)	-	(49,676)
Net interest income		**142,964**	**-**	**142,964**
Fee and commission income		51,952	-	51,952
Fee and commission expense		(2,429)	-	(2,429)
Net fee and commission income		**49,523**	**-**	**49,523**
Dividend income		9	-	9
Net gains on financial instruments at fair value through profit or loss and result from foreign exchange trading and translation of monetary assets and liabilities		11,065	-	11,065
Net gains on investment securities		(257)	-	(257)
Revenue		**203,304**	**-**	**203,304**
Other income		1,433	-	1,433
Operating expenses		(121,846)	-	(121,846)
Impairment losses on loans and receivables from customers	*b)*	(22,569)	118	(22,451)
Other impairment losses and provisions	*b)*	(3,629)	(118)	(3,747)
Profit before tax		**56,693**	**-**	**56,693**
Income tax expense		(6,709)	-	(6,709)
Profit for the period		**49,984**	**-**	**49,984**
Other comprehensive income, net of tax				
Net change in fair value of available-for-sale financial assets		285	-	285
Total comprehensive income for the period		**50,269**	**-**	**50,269**
Basic and diluted earnings per share (BAM)		420.26	-	420.26

40. Events after reporting date

There were no events after the reporting date of which management is aware that would require adjustment of amounts reported in the financial statements or disclosures.

The financial statements presented in the form prescribed by the Regulations on the content and form of financial statements for banks and financial institutions

These financial statements include Balance Sheet (statement of financial position as at 31.12.2012) in the form that is prescribed by the Regulations on the content and form of financial statements for banks and financial institutions (Official Gazette of FBIH 82/10) and Income Statement (statement on the overall result for the period from 01.01. to 31.12.2012)

Balance Sheet (statement of financial position as at 31.12.2012) BAM

ITEM	Code for AOP	Current year Gross	Current year Impairment value	Current year Net (3-4)	Previous year (initial balance)
1	2	3	4	5	6
Assets **A. CURRENT ASSETS AND RECEIVABLES (002+008+011+014+018+022+030+031+032+033+034)**	0 0 1	3.965.154.520,00	280.316.633,00	3.684.837.887,00	3.466.343.375,00
1. Cash and cash equivalents,gold and receivables from operations (003 to 007)	0 0 2	518.697.666,00	10.322.693,00	508.374.973,00	316.326.681,00
a) Cash and cash equivalents in domestic currency	0 0 3	361.332.423,00	4.376.614,00	356.955.809,00	203.254.500,00
b) Other receivables in domestic currency	0 0 4	44.237.241,00	5.642.299,00	38.594.942,00	32.416.460,00
c) Cash and cash equivalents in foreign currency	0 0 5	112.316.336,00	0,00	112.316.336,00	79.938.595,00
d) Gold and other precious metals	0 0 6	36.541,00	0,00	36.541,00	36.541,00
e) Other receivables in foreign currency	0 0 7	775.125,00	303.780,00	471.345,00	680.585,00
2. Deposits and loans in local and foreign currency (009 + 010)	0 0 8	236.962.171,00	0,00	236.962.171,00	228.681.814,00
a) Deposits and loans in domestic currency	0 0 9	236.962.171,00	0,00	236.962.171,00	228.681.814,00
b) Deposits and loans in foreign currency	0 1 0	0,00	0,00	0,00	0,00
3. Fee and interest receivables,receivables based on sale and other receivables (012 + 013)	0 1 1	7.855.673,00	6.512.678,00	1.342.995,00	1.830.988,00
a) Fee and interest receivables,receivables based on sale and other receivables in local currency	0 1 2	7.569.789,00	6.236.174,00	1.333.615,00	1.717.312,00
b) Fee and interest receivables,receivables based on sale and other receivables in foreign currency	0 1 3	285.884,00	276.504,00	9.380,00	113.676,00
4. Loans and deposits (015 to 017)	0 1 4	2.424.664.811,00	54.704.640,00	2.369.960.171,00	2.299.632.582,00
a) Loans and deposits in local currency	0 1 5	881.466.290,00	18.025.629,00	863.440.661,00	797.105.911,00
b) Loans and deposits with hedge local currency currency	0 1 6	1.052.986.963,00	36.446.772,00	1.016.540.191,00	902.288.529,00
c) Loans and deposits in foreign currency	0 1 7	490.211.558,00	232.239,00	489.979.319,00	600.238.142,00
5. Securities (019 to 021)	0 1 8	132.851.716,00	1.518,00	132.850.198,00	70.987.041,00
a) Securities in local currency	0 1 9	107.258.349,00	1.518,00	107.256.831,00	23.528.298,00
b) Securities with hedge local currency	0 2 0	10.145.287,00	0,00	10.145.287,00	0,00
c) Securities in foreign currency	0 2 1	15.448.080,00	0,00	15.448.080,00	47.458.743,00
6. Other placements and prepayments (023 to 029)	0 2 2	640.953.875,00	206.605.647,00	434.348.228,00	548.770.340,00
a) Other placements in local currency	0 2 3	2.858.833,00	2.858.372,00	461,00	0,00
b) Other placements with hedge local currency	0 2 4	0,00	0,00	0,00	0,00
c) Due placements and current maturities of long-term placements in local currency	0 2 5	598.394.345,00	181.172.717,00	417.221.628,00	522.374.894,00
d) Prepayments in local currency	0 2 6	13.389.722,00	281.169,00	13.108.553,00	13.126.774,00
e) Other placements in foreign currency	0 2 7	6.638.220,00	6.563.322,00	74.898,00	0,00
f) Due placements and current maturities of long-term placements in foreign currency	0 2 8	19.034.889,00	15.723.093,00	3.311.796,00	11.647.961,00
g) Prepayments in foreign currency	0 2 9	637.866,00	6.974,00	630.892,00	1.620.711,00
7. Inventories	0 3 0	3.168.608,00	2.169.457,00	999.151,00	113.929,00
8. Fixed available for sale assets	0 3 1	0,00	0,00	0,00	0,00
9. Assets of discontinued operations	0 3 2	0,00	0,00	0,00	0,00
10. Other assets	0 3 3	0,00	0,00	0,00	0,00

Balance Sheet (statement of financial position as at 31.12.2012) (CONTINUED)

BAM

ITEM	Code for AOP	Current year Gross	Current year Impairment value	Current year Net (3-4)	Previous year (initial balance)
1	2	3	4	5	6
11. Value added tax prepayment	0 3 4	0,00	0,00	0,00	0,00
B. FIXED ASSETS (036+041)	0 3 5	216.334.003,00	139.366.570,00	76.967.433,00	82.087.861,00
1. Tangible assets and investment in property (037 to 040)	0 3 6	168.462.955,00	104.984.957,00	63.477.998,00	68.064.557,00
a) Tangible assets owned by the bank	0 3 7	137.370.451,00	81.144.283,00	56.226.168,00	59.396.457,00
b) Investment in property	0 3 8	28.392.141,00	23.840.674,00	4.551.467,00	4.079.959,00
c) Fixed assets acquired under financial lease	0 3 9	0,00	0,00	0,00	0,00
d) Advances and acquired but not brought into use	0 4 0	2.700.363,00	0,00	2.700.363,00	4.588.141,00
2. Intangible assets (042 to 046)	0 4 1	47.871.048,00	34.381.613,00	13.489.435,00	14.023.304,00
a) Goodwill	0 4 2	0,00	0,00	0,00	0,00
b) Investment in development	0 4 3	0,00	0,00	0,00	0,00
c) Intangible assets under financial lease	0 4 4	0,00	0,00	0,00	0,00
d) Other intangible assets	0 4 5	42.631.677,00	34.381.613,00	8.250.064,00	10.105.865,00
e) Advances and assets acquired but not brought into use	0 4 6	5.239.371,00	0,00	5.239.371,00	3.917.439,00
C. DEFFERED TAX ASSETS	0 4 7	0,00	0,00	0,00	0,00
D. OPERATING ASSETS (001+035+047)	0 4 8	4.181.488.523,00	419.683.203,00	3.761.805.320,00	3.548.431.236,00
E. OFF BALANCE SHEET ASSETS	0 4 9	909.356.278,00	0,00	909.356.278,00	886.612.876,00
F. TOTAL ASSETS (048+049)	0 5 0	5.090.844.801,00	419.683.203,00	4.671.161.598,00	4.435.044.112,00

ITEM	Code for AOP	Current year	Previous year (initial balance)
1	2	3	4
A. LIABILITIES (102+106+109+113)	1 0 1	3.238.282.773,00	3.078.066.565,00
1. Deposits and borrowings (103 to 105)	1 0 2	2.987.645.483,00	2.810.225.131,00
a) Deposits and interest-bearing borrowings in domestic currency	1 0 3	1.324.566.407,00	1.145.983.521,00
b) Hedging deposits and borrowings	1 0 4	60.005.379,00	89.746.990,00
c) Deposits and interest-bearing borrowings in foreign currency	1 0 5	1.603.073.697,00	1.574.494.620,00
2. Interests and fees (107+108)	1 0 6	64.937,00	156.144,00
a) Interests and fees in domestic currency	1 0 7	19.845,00	21.153,00
b) Interests and fees in foreign currency	1 0 8	45.092,00	134.991,00
3. Securities (110 to 112)	1 0 9	100.000.000,00	100.000.000,00
a) Securities in domestic currency	1 1 0	0,00	0,00
b) Hedging securities i domestic currency	1 1 1	100.000.000,00	100.000.000,00
c) Securities in foreign currency	1 1 2	0,00	0,00
4. Other liabilities and accruals (114 to 124)	1 1 3	150.572.353,00	167.685.290,00
a) Salaries and fees	1 1 4	2.488.460,00	2.302.695,00
b) Other liabilities in domestic currency , excluding liabilities for tax and contributions	1 1 5	45.276.799,00	51.008.197,00
c) Tax and contributions ,excluding current and deffered income tax	1 1 6	1.811.768,00	1.778.569,00
d) Current tax liability	1 1 7	6.536.604,00	6.230.175,00
e) Deffered tax liability	1 1 8	1.397.540,00	1.448.064,00
f) Provisions	1 1 9	13.847.274,00	17.679.343,00
g) Accruals in domestic currency	1 2 0	14.640.812,00	16.276.433,00
h) Commission operations,AFS assets,discontinued operation assets,subordinated debt liabilities and current liabilities	1 2 1	1.337.483,00	307.590,00
i) Other liabilities in foreign currency	1 2 2	12.918.970,00	11.471.016,00

Balance Sheet (statement of financial position as at 31.12.2012) (CONTINUED)

ITEM	Code for AOP	Current year	Previous year (initial balance)
1	2	3	4
j) Accruals in foreign currency	1 2 3	17.357.908,00	19.458.077,00
k) Commission operations, due and subordinated liabilities and current maturities in foreign currency	1 2 4	32.958.735,00	39.725.131,00
B. EQUITY (126+132+138+142-148)	1 2 5	523.522.547,00	470.364.671,00
1. Issued share capital (127+128+129-130-131)	1 2 6	167.283.583,00	167.283.583,00
a) Share capital	1 2 7	119.195.000,00	119.195.000,00
b) Other forms of capital	1 2 8	0,00	0,00
c) Share premium	1 2 9	48.317.277,00	48.317.277,00
d) Registered but uncontributed capital	1 3 0	0,00	0,00
e) Repurchase of own shares	1 3 1	228.694,00	228.694,00
2. Reserves (133 to 137)	1 3 2	284.125.908,00	234.142.202,00
a) Reserves from profit	1 3 3	263.444.219,00	234.142.202,00
b) Other provisions	1 3 4	0,00	0,00
c) Provision for losses	1 3 5	20.681.689,00	0,00
d) General banking risk provisions	1 3 6	0,00	0,00
e) Transferred reserves (foreign exchange)	1 3 7	0,00	0,00
3. Revaluation reserve (139 to 141)	1 3 8	299.659,00	592.043,00
a) Revaluation reserve based on change in value of fixed assets and intangible investments	1 3 9	0,00	0,00
b) Revaluation reserve based on change in value of securities	1 4 0	299.659,00	592.043,00
c) Other revaluation resererves	1 4 1	0,00	0,00
4. Profit (143 to 147)	1 4 2	71.813.397,00	68.346.843,00
a) Profit for the year	1 4 3	53.450.260,00	49.983.706,00
b) Unallocated profit from prior years	1 4 4	18.363.137,00	18.363.137,00
c) Surplus of income over expenses for the period	1 4 5	0,00	0,00
d) Unallocated surplus of income over expenses for previous years	1 4 6	0,00	0,00
e) Retained earnings	1 4 7	0,00	0,00
5. Loss (149+150)	1 4 8	0,00	0,00
a) Loss for the period	1 4 9	0,00	0,00
b) Loss from previous years	1 5 0	0,00	0,00
C. LIABILITIES (101+125)	1 5 1	3.761.805.320,00	3.548.431.236,00
D. OFF BALANCE SHEET LIABILITIES	1 5 2	909.356.278,00	886.612.876,00
E. TOTAL LIABILITIES (151+152)	1 5 3	4.671.161.598,00	4.435.044.112,00

Income Statement (statement on the overall result for the period from 01.01. to 31.12.2012)

ITEM	Code for AOP	VALUE Current year	Prior year
1	2	3	4
A. OPERATING INCOME AND EXPENSES			
1. Interest income	2 0 1	185.470.831	192.172.938
2. Interest expense	2 0 2	48.193.054	48.944.325
Net interest income (201-202)	2 0 3	137.277.777	143.228.613
Net interest expense (202-201)	2 0 4	0	0
3. Fee and commissions income	2 0 5	68.181.741	67.400.644
4. Fee and commissions expense	2 0 6	9.187.303	9.111.392
Net fee and commission income (205-206)	2 0 7	58.994.438	58.289.252
Net fee and commission expense (206-205)	2 0 8	0	0
5.Gains from sale of securities and shares (210 to 213)	2 0 9	47.143	0
a) Gains from sale of securities at fair value through profit and loss	2 1 0	0	0
b) Gains from sale of available for sale securities	2 1 1	47.143	0
c) Gains from sale of securities held to maturity	2 1 2	0	0
d) Gains from sale of participation (share)	2 1 3	0	0
6. Losses from sale of securities and shares (215 to 218)	2 1 4	0	250.492
a) Losses from sale of securities at fair value through profit and loss	2 1 5	0	0
b) Losses from sale of available for sale securities	2 1 6	0	0
c) Losses from sale of securities held to maturity	2 1 7	0	0
d) Losses from sale of participation (share)	2 1 8	0	250.492
Net gains from sale of securities and shares (209-214)	2 1 9	47.143	0
Net losses from sale of securities and shares (214-209)	2 2 0	0	250.492
OPERATING PROFIT (201+205+209-202-206-214)	2 2 1	196.319.358	201.267.373
OPERATING EXPENSE (202+206+214-201-205-209)	2 2 2	0	0
B. OTHER OPERATING INCOME AND EXPENSE			
1. Operating income (224+225)	2 2 3	0	0
a) Income from leasing activities	2 2 4	0	0
b) Other operating income	2 2 5	0	0
2. Operating expense (227 to 236)	2 2 6	117.531.942	118.275.819
a) Expenses of gross salaries and contribution expense	2 2 7	45.132.406	45.745.055
b) Expenses of fees for temporary and occasional work contracts	2 2 8	36.607	33.772
c) Other personnel expenses	2 2 9	3.402.228	3.167.584
d) Material expenses	2 3 0	4.624.480	3.962.345
e) Production services expenses	2 3 1	27.245.152	26.412.206
f) Depreciation expenses	2 3 2	14.078.679	15.274.492
g) Expenses from leasing activities	2 3 3	0	0
h) Non-material expenses (excluding taxes and contributions)	2 3 4	21.406.193	21.677.867
i) Tax and contributions expenses	2 3 5	1.606.197	2.002.498
j) Other expenses	2 3 6	0	0
OTHER OPERATING PROFIT (223-226)	2 3 7	0	0
OTHER OPERATING EXPENSE (226-223)	2 3 8	117.531.942	118.275.819
C) GAIN AND LOSS ON PROVISIONS			
1. Bad debts recovered (240 to 243)	2 3 9	210.358.066	92.130.367
a) Income from recovered provisions for placements	2 4 0	183.030.586	84.975.423
b) Income from recovered provisions for off-balance sheet items	2 4 1	22.819.785	7.154.944

Income Statement (statement on the overall result for the period from 01.01. to 31.12.2012) (CONTINUED)

ITEM	Code for AOP	VALUE	
		Current year	Prior year
1	2	3	4
c) Income from recovered provision for liabilities	2 4 2	4.507.695	0
d) Income from other provisions recovered	2 4 3	0	0
2. Provision charges (245 to 248)	2 4 4	232.437.477	118.496.235
a) Provisions charges for placements	2 4 5	206.877.092	108.784.766
b) Provision charges for off-balance sheet items	2 4 6	23.517.643	8.681.448
c) Charges based on provisions for liabilities	2 4 7	1.794.652	579.545
d) Other provision charges	2 4 8	248.090	450.476
PROVISIONS INCOME (239-244)	2 4 9	0	0
PROVISION CHARGES (244-239)	2 5 0	22.079.411	26.365.868

ITEM	Code for AOP	VALUE	
		Current year	Prior year
1	2	3	4
D. OTHER INCOME AND EXPENSES **1. Other income (252 to 258)**	2 5 1	2.252.388	1.492.854
a) Income from bad debts previously written off	2 5 2	65.914	84.265
b) Losses from sales of fixed assets, and intangible investments	2 5 3	512.418	43.391
c) Income from reduction in liabilities	2 5 4	0	0
d) Income from dividends and shares	2 5 5	9.648	0
e) Surplus	2 5 6	27.947	32.263
f) Other income	2 5 7	1.636.461	1.332.935
g) Gains grom discounted operations	2 5 8	0	0
2. Other expense (260 to 266)	2 5 9	677.026	338.504
a) Expense from bad debts written off	2 6 0	0	0
b) Losses from depreciation and fixed assets write off, and intangible assets	2 6 1	0	0
c) Losses from disposals and write-offs of fixed and intangible assets	2 6 2	18.977	0
d) Shortfalls	2 6 3	6.900	9.460
e) Inventorywrite-offs	2 6 4	0	0
f) Other expenses	2 6 5	651.149	329.044
g) Expenses from discontinued operations	2 6 6	0	0
GAIN FROM OTHER INCOME AND EXPENSES (251-259)	2 6 7	1.575.362	1.154.350
LOSS FROM OTHER INCOME AND EXPENSES (259-251)	2 6 8	0	0
OPERATING GAIN (221+237+249+267-222-238-250-268)	2 6 9	58.283.367	57.780.036
OPERATING LOSS (222+238+250+268-221-237-249-267)	2 7 0	0	0
E. INCOME AND EXPENSES FROM CHANGE IN VALUE OFF ASSETS AND LIABILITIES **1. Income from changes in value of assets and liabilities (272 to 276)**	2 7 1	167.322.197	224.773.100
a) Income based on change in value of placements and receivables	2 7 2	0	0
b) Income based on change in value securities	2 7 3	0	0
c) Income based on change in value of liabilities	2 7 4	0	0
d) Income based on change in value of fixed assets, investment real estate and intangible investments	2 7 5	0	0
e) Income from positive foreign exchange differences	2 7 6	167.322.197	224.773.100

Income Statement (statement on the overall result for the period from 01.01. to 31.12.2012) (CONTINUED)

ITEM	Code for AOP	VALUE	
		Current year	Prior year
1	2	3	4
2. Expenses from change in value of assets and liabilities (278 to 282)	2 7 7	165.669.226	225.860.163
a) Expenses from change in value of placements and receivables	2 7 8	0	0
b) Expenses from change in value of securities	2 7 9	0	0
c) Expenses from change in value of liabilities	2 8 0	0	0
d) Expenses from change in value of fixed assets, investment real estate and intangible investments	2 8 1	607.000	2.876.845
e) Expenses from unfavorable foreign exchange differences	2 8 2	165.062.226	222.983.318
PROFIT ARISING FROM THE CHANGE IN VALUE OF ASSETS AND LIABILITIES (271-277)	2 8 3	1.652.971	0
LOSS FROM CHANGE IN VALUE OF ASSETS AND LIABILITIES (277-271)	2 8 4	0	1.087.063
PROFIT BEFORE TAX (269+283-270-284))	2 8 5	59.936.338	56.692.973
LOSS BEFORE TAX (270+284-269-283)	2 8 6	0	0
F. CURRENT AND DEFFERED INCOME TAX **1. Income tax**	2 8 7	6.536.602	6.709.267
2. Profit from increase of deffered tax assets and decrease of deffered tax liabilities	2 8 8	50.524	0
3. Loss from decrease of deffered tax assets and increase of deffered tax liabilities	2 8 9	0	0
PROFIT AFTER TAX (285+288-287-289) ili (288-286-287-289)	2 9 0	53.450.260	49.983.706
LOSS AFTER TAX (286+287+289-288) ili (287+289-285-288)	2 9 1		
G. OTHER PROFIT AND LOSSES FOR THE PERIOD **1. Capital gains (293 to 298)**	2 9 2	0	316.357
a) Income from decrease of revalorisation reserves in fixed assets and intangible investments	2 9 3	0	0
b) Income from change of fair value of securities available for sale	2 9 4	0	316.357
c) Income from transferring financial reports of foreign operations	2 9 5	0	0
d) Actuarial income from defined income scheme	2 9 6	0	0
e) Effective part of income based on cash flow hedging	2 9 7	0	0
f) Other capital gains	2 9 8	0	0
2. Capital losses (300 to 304)	2 9 9	292.384	0
a) Losses from change in fair value of securities available for sale	3 0 0	292.384	0
b) Losses from transferring financial reports of foreign operations	3 0 1	0	0
c) Actuarial loss from defined income scheme	3 0 2	0	0
d) Effective part of loss from cash flow hedging	3 0 3	0	0
e) Other capital gains	3 0 4	0	0
NET GAIN/ LOSSES TOTAL RESULT FOR THE PERIOD (292-299) ili (299-292)	3 0 5	-292.384	316.357
H. INCOME TAX RELATING TO OTHER TOTAL RESULT FOR THE PERIOD	3 0 6	29.238	31.366
OTHER TOTAL RESULT FOR THE PERIOD (305±306)	3 0 7	-263.146	284.991
TOTAL NET PROFIT FOR THE YEAR (290±307)	3 0 8	53.187.114	50.268.697
TOTAL NET LOSS FOR THE PERIOD (291±307)	3 0 9		0
Part od profit/loss attributable to majority shareholders	3 1 0		0
Part od profit/loss attributable to minority shareholders	3 1 1		0
Basic earnings per share	3 1 2	449	420
Diluted earings per share	3 1 3	449	420
Average number of employees based on hours worked	3 1 4	1.321	1.349
Average number of employees based on periods end	3 1 5	1.311	1.351

PROTECTION

Supporting communities in critical times

“After one of our town’s largest employers closed its doors, our local communities went through a very tough time. UniCredit worked closely with government officials on an innovative initiative that helped those who had lost their jobs, like me, gain prompt access to unemployment benefits. The bank quickly facilitated funding for entitlements, protecting families from collapse.”

Franco F., customer of UniCredit in Italy

Addresses and phone numbers

Headquarters

Adress	Kardinala Stepinca b.b., Mostar
Phone	00387 (0) 36 312 112
Fax	00387 (0) 36 356 227
Switchboard	00387(0) 36 312 112 00387(0) 36 312 116
Retail	00387 (0) 36 312 112
Corporate	00387 (0) 33 491 708
Risk management	00387 (0) 36 312 112
Finance	00387 (0) 36 356 600
GBS	00387 (0) 36 312 112

Business network of UniCredit Bank d.d.- 31.12.2012

Branch	Adress	City	ZIP code	Phone
BUSINESS CENTER MOSTAR				
Branch 1 Mostar (Mepas)	Kardinala Stepinca bb	Mostar (Mepas Mall)	88000	036/356 - 277
Branch 2 Mostar - Mostarka	Dubrovačka 4	Mostar (Mostarka)	88000	036/325 - 702
Branch 3 Mostar - Revija	Mostarskog bataljona 4	Mostar (Revija)	88000	036/501 - 412
Branch 5 Mostar(Ledara)	Kardinala Stepinca bb	Mostar (Ledara)	88000	036/333 - 902
Branch 6 Mostar (Biosfera)	Braće Fejića bb, Biosfera	Mostar	88000	036/502 - 303
Branch Čapljina	Augusta Šenoe bb	Čapljina	88300	036/810 - 712
Branch Stolac	Hrvatskih branitelja bb	Stolac	88360	036/858 - 444
Branch Neum	Dr. Franje Tuđmana bb	Neum	88390	036/880 - 149
Branch Čitluk	Kralja Tvrtka 1	Čitluk	88260	036/640 - 439
Branch Međugorje	Međugorje bb	Međugorje	88266	036/640 - 439
Branch Konjic	Trg Državnosti bb	Konjic	88400	036/725 - 205
BUSINESS CENTER ZAPADNA HERCEGOVINA				
Branch Grude	Franje Tuđmana br. 124	Grude	88340	039/660 - 123
Branch 1 Široki Brijeg	Fra Didaka Buntića 13	Široki Brijeg	88220	039/700 - 212
Branch 2 Široki Brijeg	Fra Didaka Buntića bb	Široki Brijeg	88220	039/702 - 530
Branch Ljubuški	Kralja Zvonimira bb	Ljubuški	88320	039/831 - 340
Branch Livno	Kralja Tvrtka bb	Livno	80101	034/208 - 222
Branch Tomislavgrad	Brigade Kralja Tomislava bb	Tomislavgrad	80240	034/356 - 201
Branch Posušje	Fra Grge Martića 28	Posušje	88240	039/685 - 416
BUSINESS CENTER BOSNA SI				
Branch Orašje	Treća ulica 47	Orašje	76270	031/716 - 713
Branch Odžak	Titova 17	Odžak	76290	031/762 - 437
Branch Doboj	Kralja Dragutina 2a	Doboj	74000	053/241 - 111
Branch Brčko	Trg mladih 1	Brčko	76120	049/233 - 760
Branch Bijeljina	Svetog Save br. 38	Bijeljina	76300	O55/225 - 090
BUSINESS CENTER SREDNJA BOSNA				
Branch Vitez	Petra Krešimira IV	Vitez	72250	030/717 - 410
Branch 1 Vitez	Poslovni centar 96, FIS	Vitez	72250	030/718 - 683
Branch Uskoplje	Bana Jelačića bb	Uskoplje	70240	030/494 - 181
Branch Donji Vakuf	770 Slavne Brdske brigade 23	Donji Vakuf	70220	030/259 - 661
Branch Novi Travnik	Kralja Tvrtka bb	Novi Travnik	72290	030/795 - 502
Branch Fojnica	Mehmeda Spahe 18	Fojnica	71270	030/547 - 022
Branch 1 Travnik	Bosanska 56	Travnik	72270	030/518 - 611
Branch Jajce	Hrvoja Vukčića Hrvatinića bb	Jajce	70101	030/654 - 560
Branch Rama	Kralja Tomislava bb	Rama	88440	036/771-061,036/770-919

Branch	Adress	City	ZIP code	Phone
Branch Bugojno	Zlatnih ljiljana 16	Bugojno	70230	030/259 - 577
Branch Kiseljak	Josipa Bana Jelačića bb	Kiseljak	71250	030/877 - 122
BUSINESS CENTER ZENICA				
Branch Žepče	Stjepana Tomaševića bb	Žepče	72230	032/880 - 785
Branch 1 Visoko	Branilaca 20a	Visoko	71300	032/730 - 056
Branch Zenica	Školska bb	Zenica	72000	032/449 - 346
Branch 1 Zenica	Londža 75/b	Zenica	72000	032/202 - 623
Branch 2 Zenica	Bulevar Kralja Tvrtka I 17	Zenica	72000	032/444 - 660
Branch Kakanj	Alije Izetbegovića bb	Kakanj	72240	032/557 - 215
Branch Tešanj	Titova bb	Tešanj	74260	032/665 - 196
Branch Jelah	Titova bb	Jelah	74264	032/664 - 426
Branch Breza	Alije Izetbegovića 80	Breza	71370	032/786 - 014
Branch Zavidovići	Pinkasa Bandta 3	Zavidovići	72220	032/869 - 200
Branch Vareš	Zvijezda 63	Vareš	71330	032/848 - 030
Branch Olovo	Branilaca 17	Olovo	71340	032/829 - 535
Branch Maglaj	Viteška bb	Maglaj	74250	032/609 - 811
BUSINESS CENTER BIHAĆ				
Branch Bihać	Ulica V. Korpusa bb	Bihać	77000	037/223 - 051
Branch 1 Bihać	Trg slobode 7	Bihać	77000	037/229 - 270
Branch Velika Kladuša	Maršala Tita 23	Velika Kladuša	77230	037/776 - 606
Branch Cazin	Bosanskih Šehida bb	Cazin	77220	037/515 - 200
Branch 1 Cazin	Cazinskih brigada bb	Cazin	77220	037/515 - 016
Branch Bosanska Krupa	Slavne brigade 511	Bosanska Krupa	77240	037/476 - 880
Branch 1 Sanski Most	Trg oslobodilaca bb	Sanski Most	79260	037/688 - 545
BUSINESS CENTER SARAJEVO STARI GRAD				
Branch 1 Sarajevo	Maršala Tita 48	Sarajevo	71000	033/253 - 396
Branch 3 Sarajevo	Zagrebačka 2-4	Sarajevo (Kovačići)	71000	033/253 - 973
Branch 4 Sarajevo	Alipašina 45a	Sarajevo (Ciglane)	71000	033/560 - 790
Branch 11 Sarajevo	Gajev trg 2	Sarajevo	71000	033/251 - 950
Branch 12 Sarajevo	Zelenih beretki 24	Sarajevo	71000	033/491 - 767
Branch 13 Sarajevo	Branilaca grada 53	Sarajevo	71000	033/221 - 700
Branch 14 Sarajevo	Maršala Tita 13	Sarajevo	71000	033/201 - 981
Branch 15 Sarajevo	Bolnička 25	Sarajevo	71000	033/218 - 201
Branch 16 Sarajevo	Fra Anđela Zvizdovića 1	Sarajevo UNITIC	71000	033/252 - 280

Business network of UniCredit Bank d.d.- 31.12.2012 (CONTINUED)

Branch	Adress	City	ZIP code	Phone
BUSINESS CENTER NOVO SARAJEVO				
Branch 2 Sarajevo	Zmaja od Bosne 14C	Sarajevo	71000	033/723 - 690
Branch 7 Sarajevo	Trg međunarodnog prijateljstva 14	Sarajevo	71000	033/776 - 130
Branch 9 Sarajevo	Hifzi Bjelevca 82	Sarajevo	71000	033/778 - 750
Branch 17 Sarajevo	Dr.Fetaha Bećirbegovića 23A	Sarajevo (OTOKA)	71000	033/721 - 815
Branch 18 Novo Sarajevo	Zmaja od Bosne 74	Sarajevo	71000	033/659 - 704
Branch 19 Sarajevo	Mustafe Kamarića 5	Sarajevo (Dobrinja)	71000	033/775 - 851
Branch 20 Sarajevo (Stara Otoka)	Brčanska 14	Sarajevo (OTOKA)	71000	033/721 - 971
Branch Vogošća	Igmanska 60	Vogošća	71320	033/476 - 361
Branch Iidža	Mala Aleja 10	Ilidža	71210	033/627 - 937
Branch Hadžići	Hadželi 153	Hadžići	71240	033/475 - 390
BUSINESS CENTER TUZLA				
Branch 1 Tuzla	Džafer Mahala 53-55	Tuzla	75000	035/259 - 059
Branch 2 Tuzla	Armije BiH 3	Tuzla	75000	035/306 -478
Branch 3 Tuzla	Aleja Alije Izetbegovića 10	Tuzla	75000	035/302 - 470
Branch 4 Tuzla	Turalibegova br. 22	Tuzla	75000	035/301 - 824
Branch Gradačac	Ulica šehida 1	Gradačac	76250	035/822 - 500
Branch u Lukavac	Kulina Bana bb	Lukavac	75300	035/551 - 331
Branch Gračanica	22 Divizije bb	Gračanica	75320	035/701 - 471
Branch Srebrenik	21 Srebreničke Brigade	Srebrenik	75350	035/646 - 094
Branch Živinice	Ulica Oslobođenja bb	Živinice	75270	035/743 - 143
Branch Kalesija	Trg šehida bb	Kalesija	75260	035/610 - 114
BUSINESS CENTER BANJA LUKA				
Branch Banja Luka	I Krajiškog korpusa br. 39	Banja Luka	78000	051/348 - 063
Branch 1 Banja Luka	Veselina Masleše 10	Banja Luka	78000	051/224 - 856
Branch Laktaši	Karađorđeva bb	Laktaši	78250	051/530 - 662
Branch Prijedor	Zanatska bb	Prijedor	79101	052/234 - 258

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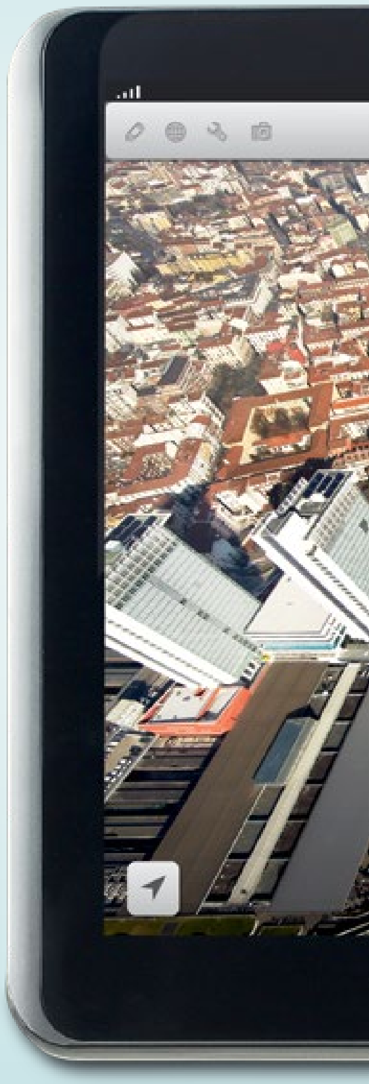

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