ProCredit Bank

Bosnia and Herzegovina

Annual Report 2012

PROCREDIT BANK D.D. SARAJEVO

Financial Statements
for the year ended 31 December 2012

PROCREDIT BANK D.D. SARAJEVO
Financial statements for the year ended 31 December 2012

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Independent Auditor's report

To the Shareholders and Board of Directors of ProCredit Bank d.d. Sarajevo:

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of thesefinancial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

PricewaterhouseCoopers d.o.o. Sarajevo

PRICEWATERHOUSECOOPERS D.O.O. SARAJEVO

Selimović Alida

PricewaterhouseCoopers d.o.o. Sarajevo

Alida Selimović, certified auditor

21 March 2013

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

The Management Board of the Bank is required to prepare financial statements of the Bank 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 International Financial Reporting Standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

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

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

The financial statements set out on pages 3 to 60 were authorised by the Management Board on 21 March 2013 for issue to the Supervisory Board and are signed below to signify this.

On behalf of ProCredit Bank d.d., Sarajevo:

Edin Hrnjica

Edin Hrnjica

Director

ProCredit Bank d.d. Sarajevo

Edina Vuk

Executive Director

Statement of Comprehensive Income

	Notes	Year Ended 2012	31 December 2011
Interest and similar income	6	26,910	26,937
Interest expense and similar charges	6	(10,059)	(9,526)
Net interest income		**16,851**	**17,411**
Net impairment release of provision	12	224	1,447
Net interest income after provision for impairment		**17,075**	**18,858**
Fee and commission income	7	5,273	5,268
Fee and commission expense	7	(1,210)	(1,177)
Foreign exchange gains	8	389	359
Other operating income	9	527	708
Personnel expenses	10	(10,566)	(11,648)
Depreciation and amortisation	17,18	(1,589)	(1,813)
Other operating expenses	11	(9,353)	(10,343)
Profit/(loss) before tax		**546**	**212**
Income tax benefit	13	83	239
Profit/(loss) for the year		**629**	**451**
Other comprehensive income		–	–
Total comprehensive income / (loss) for the year		**629**	**451**

The accompanying notes on pages 7 to 60 form an integral part of these financial statements. 3

Statement of Financial Position

	Notes	At 31 Dec 2012	At 31 Dec 2011
Assets			
Cash and cash equivalents	14	37,523	41,390
Obligatory reserves with Central Bank	15	20,210	20,291
Loans and advances to customers	16	253,673	239,861
Financial assets available for sale		39	31
Deferred tax assets	19	2,134	2,050
Other assets	20	1,628	1,403
Property and equipment	17	14,361	4,785
Intangible assets	18	1,652	947
Total assets		**331,220**	**310,758**
Liabilities			
Deposits from customers	21	246,976	210,205
Borrowings	22	28,525	47,482
Other liabilities		989	1,012
Subordinated debt	23	16,085	16,079
Provisions	24	301	265
Total liabilities		**292,876**	**275,043**
Equity			
Share capital	25	48,458	46,458
Share premium		293	293
Statutory reserves		23	–
(Accumulated losses)		(10,430)	(11,036)
Total equity		**38,344**	**35,715**
Total liabilities and equity		**331,220**	**310,758**

The accompanying notes on pages 7 to 60 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserves	Retained earnings	Total equity
Balance at 1 January 2012	46,458	293	_	(11,036)	35,715
Issue of share capital	2,000	_	_	_	2,000
Profit for the year	_	_	_	629	629
Appropriations from statutory reserve	_	_	23	(23)	_
Balance at 31 December 2012	**48,458**	**293**	**23**	**(10,430)**	**38,344**
Balance at 1 January 2011	42,458	293	-	(11,487)	31,264
Issue of share capital	4,000	-	-	-	4,000
Profit for the year	-	-	-	451	451
Appropriations from statutory reserve	-	-	-	-	-
Balance at 31 December 2011	**46,458**	**293**	**-**	**(11,036)**	**35,715**

The accompanying notes on pages 7 to 60 form an integral part of these financial statements. 5

CASH FLOW STATEMENT

	Notes	At 31 Dec 2012	At 31 Dec 2011
Operating activities			
Profit / (loss) before tax		546	212
Adjustments:			
Depreciation and amortisation		1,589	1,813
Impairment release provisions	12	(224)	(1,447)
Changes in other provisions		36	43
Loss on disposal		102	(107)
Cash flows fromoperating activities before		**2,049**	**514**
changes in operating assets and liabilities			
(Increase)/decrease in operating assets			
Obligatory reserve with Central Bank		81	4,065
Loans and advances to customers		(13,588)	(12,395)
Other assets		(225)	258
Increase/(decrease) in operating liabilities			
Deposits from customers		36,771	(8,215)
Other liabilities		(24)	(641)
Net cash fromoperating activities		**25,064**	**(16,414)**
		–	
Investing activities			
Purchase of property and equipment		(10,787)	(862)
Purchase of intangible assets		(1,337)	(384)
Proceeds from sale of PPE		152	157
Decrease of financial investments available for sale		(8)	196
Net cash outflow from investing activities		(11,980)	(893)
Financing activities			
Issued share capital		2,000	4,000
Proceeds from borrowings and subordinated debt		44,023	45,006
Repayments of borrowings and subordinated debt		(62,974)	(34,466)
Net cash (outflow)/inflow fromfinancing activities		(16,951)	14,540
Net decrease in cash and cash equivalents		(3,867)	(2,767)
Cash and cash equivalents at 1 January		41,390	44,157
Cash and cash equivalents at 31 December	14	37,523	41,390

The accompanying notes on pages 7 to 60 form an integral part of these financial statements. 6

1. Reporting entity

ProCredit Bank d.d., Sarajevo (further "the Bank") is incorporated to perform all banking activities in accordance with the law. ProCredit Holding AG & Co. KGaA. is the parent company and ultimate controlling party of ProCredit Bank d.d. Sarajevo (head office: Sarajevo, address: Emerika Bluma 8, Bosnia and Herzegovina).
The Bank has been registered as a joint stock company domiciled in Bosnia and Herzegovina. ProCredit Bank d.d., Sarajevo is part of a global network of financial institutions, managed and controlled by ProCredit Holding AG & Co. KGaA.
The Bank is incorporated to perform all banking activities in accordance with the law and the main activities include commercial lending, receiving of deposits, foreign exchange deals, and payment operation services in the country and abroad and retail banking services. In addition, it provides trade finance facilities to companies for export and import purposes.

2. Basis of preparation

2.1 Statement of compliance

The financial statements of ProCredit Bank d.d., Sarajevo have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).
These financial statements were authorised for issue by the Management Board on 21 March 2013.

2.2 Basis for measurement

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of available for sale financial assets.

2.3 Functional and presentation currency

The Bank's financial statements are presented in Bosnian Marks ("BAM"), which is the Bank's functional and presentation currency, rounded to the nearest thousand.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.
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 and in any future period affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 5.

3. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Foreign currency

Transactions in foreign currencies are translated into the respective functional currency of the operation at the exchange rate at the date of transaction. Monetary assets and monetary liabilities denominated in foreign currency at the reporting date are retranslated into the functional currency using the exchange rates prevailing at the reporting date. Income and expenses denominated in foreign currency are translated into functional currency at the exchange rates valid at the dates of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Non-monetary assets and items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated at the reporting date.

Exchange rates	31 Dec 2012 BAM	31 Dec 2011 BAM
USD	1.483600	1.511577
EUR	1.955830	1.955830

3.2 Interest income and expense

Interest income and expense are recognised in profit or loss for all interest bearing instruments on an accrual basis using the effective interest rate, i.e. at the rate that discounts estimated future cash flows to net present value over the life of the underlying contract. Such income and expense are presented as interest and similar income or interest expense and similar charges in profit or loss. Interest income and expense also include fee and commission income and expense in respect of loans to and receivables from customers or borrowings from other banks, recognised on an effective interest basis.
The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3.3 Fee and commission income and expenses

Fees and commission income and expenses mainly comprise fees received from enterprises arising from domestic and foreign payments, the issue of guarantees and letters of credit and credit card business. Fees and commissions, except for those which form part of the effective interest rate of the instrument, are generally rec-

ognised on an accrual basis when the service has been provided.

3.4 Dividends

Dividend income is recognised when the right to receive income is established.

3.5 Income tax expense

Income tax charge is based on taxable profit for the year and comprises current and deferred tax.
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The statutory corporate profit tax rate for 2012, applicable to taxable profits, is 10% (2011: 10%).
Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. The movement 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, based on tax rates enacted or substantially enacted at the reporting date. Currently enacted tax rates are used in the determination of deferred income tax.
Deferred tax assets are recognised for unused tax losses to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised.

3.6 Financial assets and financial liabilities

Classification

The Bank classifies its financial assets and liabilities in the following categories: loans and receivables, held-to-maturity investments, financial assets at fair value through profit or loss, available-for-sale financial assets and other financial liabilities. The classification depends on the purpose for which the financial assets and liabilities were acquired. Management determines the classification of its investments upon initial recognition. At the reporting date the Bank had neither held-to-maturity investments nor financial assets at fair value through profit or loss.

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. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading with the receivable and include loans to and receivables from Banks, loans to and receivables from customers and obligatory reserves with the Central Bank.

b) Financial assets available for sale
Available-for-sale financial assets are non-derivative investments that are designated as available for sale or are not classified as another category of financial assets.
Financial assets designated as available for sale are intended to be held for an indefinite period of time but may be sold as a response to liquidity needs or changes in interest rates. Available-for-sale financial assets include equity securities.

c) Other financial liabilities
Other financial liabilities comprise all financial liabilities which are not designated at fair value through profit or loss. Other financial liabilities include borrowings, deposits, subordinated liabilities and other liabilities.

Recognition and derecognition

Purchases and sales of financial assets available for sale are recognised on the trade date which is the date when the Bank commits to purchase or sell the instrument.

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

The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

The Bank derecognises a financial liability 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 significantly change, the Bank will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

Initial and subsequent measurement

Loans and receivables are initially recognised at fair value plus transaction costs. Subsequently, they are measured at amortised cost using the effective interest method.
Available-for-sale financial assets are initially recognised at fair value plus transaction costs that are directly attributable to its acquisition or issue.
Available-for-sale financial assets are subsequently measured at their fair value. Gains and losses from a change in the fair value of available-for-sale financial assets are recognised directly in a fair value reserve within equity. Equity instruments classified as available for sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost.

3.7 Impairment of financial assets

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

(b) Individually assessed loans and advances
For individually significant loans, it is assessed whether objective evidence of impairment exists, i.e. any factors which might influence the customer's ability to fulfil his/her contractual payment

obligations towards the Bank:

- delinquencies in contractual payments of interest or principal
- breach of covenants or conditions
- initiation of bankruptcy proceedings
- exposures that have been assessed for specific individual ip airment and where an impairment has been confirmed
- exposures that have been classified as impaired restructured that are in arrears of no more than 30 days
- exposures that belonging to clusters of clients being consid ered impaired by the Bank because of deterioration of the quality due to external influences and/or extraordinary events
- any specific information on the customer's business (e.g. reflected by cash flow difficulties experienced by the client)
- changes in the customer's market environment
- the general economic situation.

Additionally, the aggregate exposure to the client and the realisable value of collateral held are taken into account when deciding on the allowance for impairment. If there is objective evidence that an impairment loss has been incurred, the amount In a case of restructured credit exposures where more than one credit products of the same or different currencies are restructured through issuing one new single credit product, then the original effective interest rate of the new credit product will be used for the estimation of future cash flows at the financial asset's. Also, In cases of credit exposures disbursed with conditional fixed interest rates and disbursement fees (that is when the credit exposure is disbursed with a fixed interest rate and disbursement fee, but provisional to the fulfilment of certain conditions the interest rate and/or the disbursement fee shall have a one-time one-step increase or decrease), then:

- if this change happens, the effective interest rate calculated after the change will be considered as the original effective interest rate;

- if the conditions are not fulfilled and the change does not happen, then the original effective interest rate (as of the date of disbursement) will be used. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

(c) Collectively assessed loans and advances

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

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

In case the categorization of the credit exposure based on the impairment criteria and/or the status of restructuring changes and there is no more need for an assessment for s.i.i. to establish the provisions, then the exposure will be collectively provisioned. For the purposes of the evaluation of impairment of individually insignificant loans, the loans are grouped on the basis of similar credit risk characteristics, i.e. according to the number of days they are in arrears. Arrears of 30 or more days are considered to be a sign of impairment. This characteristic is relevant for the estimation of future cash flows for the so defined group of such assets, based on historical loss experiences with loans that showed similar characteristics.The collective assessment of impairment for individually insignificant loans and for unimpaired loans (portfolio-based impairment) belonging to a group of financial assets is based on a quantitative analysis of historical default rates for loan portfolios with similar risk characteristics in the individual subsidiaries (migration analysis), grouped into geographical segments with a comparable risk profile. After a qualitative analysis of this statistical data, the holding company's management prescribed appropriate rates to the Banks of the ProCredit group as the basis for their portfolio-based impairment allowances. Deviations from this guideline were allowed, if necessitated by the specific situation of a ProCredit institution.

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

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

(d) Reversal of impairment

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

(e) Writing off loans and advances

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

(f) Loans and advances with renegotiated terms

Loans and advances with renegotiated terms which are considered to be individually significant are provisioned on an individual basis. The amount of the loss is measured as a difference between the restructured loan's carrying amount and the present value of its estimated future cash flows discounted at the loan's original effective interest rate (specific impairment). Loans and advances with renegotiated terms which are individually insignificant are collectively assessed for impairment.

3.8 Financial assets available for sale

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or 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 security below its cost is considered in determining whether the assets are impaired. If any such evidence exists 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 and loss – is removed from other comprehensive income and recognised in profit or loss.

Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss at any point thereaf-

ter. 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 and loss, the impairment loss is reversed through profit or loss.

3.9 Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include mandatory reserve deposits with the Central Bank and all interbank placements and reverse sale and repurchase agreements with other banks with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

3.10 Property and equipment

Property and equipment are tangible assets that are held for use in the supply of services, or administrative purposes.
Property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes 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, only when it is probable that future economic benefits associated with the item will flow to the Bank and the rest of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.
Property and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.
Assets in the course of construction are reported at their cost of construction including costs charged by third parties. Upon completion, all accumulated costs of the asset are transferred to the relevant tangible property and equipment category and subsequently subject to the applicable depreciation rates.
Gains and losses on disposal of property and equipment are recognised in profit or loss.

Depreciation is charged on all assets except assets in the course of construction on a straight line basis so as to write off the cost of the assets over their estimated useful lives to their estimated recoverable amounts at the following annual rates:

in %	2012	2011
Buildings	2.5	2.5
Computers and telephone equipment	14-33	14-33
Furniture and equipment	10 -20	10 -20
Leasehold improvements	Over the lease period	Over the lease period

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

3.11 Intangible assets

Intangible assets that are acquired by the Bank are stated at cost less accumulated amortisation and impairment losses.
Subsequent expenditure is capitalised only if all of the features required by IAS 38 are satisfied. All other expenditure is expensed as incurred.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives as follows:

	2012	2011
Software	5 years	5 years
Licenses and other intangible assets	5 years	5 years

3.12 Impairment of non-financial assets

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

3.13 Leases

To date, premises rental contracts entered into by the Bank are operating leases. The total payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

3.14 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.
Provisions for liabilities and charges are maintained at the level that the Bank's management considers sufficient for absorption of incurred losses. The management determines sufficiency of provisions on the basis of insight in 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 obligations is no longer probable, the provision is reversed.

3.15 Employee benefits

a) Defined contribution plans
The Bank, in the normal course of business, makes payments on behalf of its employees for pensions, health care, employment and personnel tax that are calculated on the basis of gross salaries and wages, food allowances and travel expenses according to the legislation. The Bank makes these contributions to the Government's health and retirement funds, at the statutory rates in force during the year, based on gross salary payments.
The Bank pays contributions to public pension insurance funds on a mandatory basis. Once the contributions have been paid, the Bank has no further payment obligations. The regular contributions constitute costs for the year in which they are due and as such are included in staff costs. The cost of these payments is charged to profit or loss in the same period as the related salary cost.

b) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

c) Post-employment benefits

According to local legal requirements, employees of the Bank are entitled to receive one-time benefit on retirement, dependent on factors such as age, years of service and the salary they had with the Bank.

Such payments are treated as post-employment benefits and the liability recognised in the statement of financial position is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets (if any), together with adjustments for unrecognised actuarial gains or losses and past service costs.

This obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by applying a discount rate which is similar to the rate of return on corporate bonds in the Federation of Bosnia and Herzegovina (around 6%) and the average interest rate of time deposit accounts held with commercial Banks around 4%.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in profit and loss as well as all past service costs.

3.16 Deposits, borrowings and subordinated liabilities

Deposits, borrowings and subordinated liabilities are the Bank's sources of funding.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

Deposits, borrowings and subordinated liabilities are initially measured at fair value net of transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3.17 Statutory reserve

Statutory reserve is created in accordance with the Company Law of the Federation of Bosnia and Herzegovina, which requires 10% of the profit for the year to be appropriated to this reserve until reaching 25% of issued share capital. If the statutory reserve does not reach 25% of issued share capital within 5 business years, a joint stock company is required to increase its appropriations to this reserve to 20% of its profit for the year at the end of the fifth and any following business years until reaching 25% of the issued share capital. This reserve can be used for covering current and prior year losses.

3.18 Retained earnings/accumulated losses

Any profit (after appropriations) or loss for the year is transferred to retained earnings/accumulated losses.

3.19 Share capital

Share capital represents the nominal value of paid-in ordinary shares classified as equity and denominated in BAM. Dividends are recognised as liability in the period in which they are declared.

3.20 Off- balance-sheet commitments and contingencies

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

3.21 Adoption of new standards and interpretations

(a) *New and amended standards adopted by the Company*

The following new standards and interpretations became effective for the ProCredit Bank from 1 January 2012:

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood.

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

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

IFRS 9, Financial Instruments - I: Classification and Measurement. IFRS 9, issued in November, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other eq-

uity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

• Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. IFRS 10, Consolidated Financial Statements (issued in May 2012 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12

"Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.

IFRS 11, Joint Arrangements, (issued in May 2012 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2012 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in Company activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

IFRS 13, Fair value measurement, (issued in May 2012 and effective for annual periods beginning on or after 1 January 2015), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.

IAS 27, Separate Financial Statements, (revised in May 2012 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2012 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.

Amendments to IAS 1, Presentation of Financial Statements (issued June 2012, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two Companies, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Company expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

Amended IAS 19, Employee Benefits (issued in June 2012, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income.

Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2012 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issuedin December 2012 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS

34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of ameasure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements.

- **Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12** (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 1 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied.

  Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards - Government Loans" (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers.
- **Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities** (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary.
- ***Other revised standards and interpretations:*** IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", considers when and how to account for the benefits arising from the stripping activity in mining industry. The interpretation will not have an impact on the Company's financial statements.
  Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company's financial statements.

4. Financial risk management

The Bank's activities expose it to a variety of financial risks; credit risk, liquidity risk and market risk. The Bank has established an integrated system of risk management by introducing a set of policies and procedures for analysis, evaluation, acceptance and risk management. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business.
The Management Board has overall responsibility for the establishment and oversight of the Bank's risk management framework.
Risk management is carried out by the Bank's Risk Sector under policies approved by the Management Board. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, and products and services offered.
The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.
Risk steering and risk controlling processes are adjusted in a timely manner to reflect changes in the operating environment.

4.1 Credit risk

The Bank is subject to credit risk through its lending activities and in cases where it acts as an intermediary on behalf of customers or third parties. Credit risk arises from customer credit exposures, credit exposure from interbank placements and issuer risk. It is divided into credit default risk and credit portfolio risk in order to facilitate focused risk management. Credit exposures to regulated financial and public institutions and issuers of securities are treated separately as a counterparty risk. The goal is to prevent the Bank from incurring losses caused by a counterparty's or issuer's lack of willingness or capacity to fulfil its obligations. The Bank seeks to minimise its exposure to counterparty risk thorough approval and selection processes for new counterparties and issuers, by limiting exposure to any single counterparty or group of counterparties as well as limiting the exposure to any single issuer or issuer class and through review of approved counterparties and established limits.

4.1.1 Risk limit control and mitigation policies

The Bank takes on exposure to credit risk, which is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances and there is also credit risk in off-balance sheet financial instruments, such as loan commitments.
Credit default risk from customer credit exposures is defined as the risk of losses due to a potential non-fulfilment of the contractual payment obligations associated with a customer credit exposure.
For risk management reporting purposes the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk and sector risk).
Credit risk management and control are centralised in the Risk and Credit Risk Department and managed by the Credit Risk Committee.
The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Credit Risk Management Committee is responsible to identify potential risks, propose measures for their minimization (or limits for control), and monitor the implementation of the measures approved by the Committee and report on developments in the subsequent meeting.
Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

(a) Collateral
The Bank measures the exposure to credit risk associated with certain kinds of collateral. Accordingly, the Bank monitors its reliance

on different kinds of collateral. To the extent that real estate prices drop significantly, the Bank expects that its credit risk losses on impaired lending may increase significantly as the value of collateral decreases.
The Bank employs a range of policies and practices to mitigate credit risk. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Cash
- Bank and corporate guarantees
- Mortgages on residential properties
- Charges on business assets such as premises, inventory and accounts receivable

In order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Debt securities, treasury bills and other eligible bills are generally unsecured.

(b) Credit-related contingencies
The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans and are secured with similar collateral as are loans.

4.1.2 Credit risk management

The Bank accounts for counterparty risks arising from the loan portfolio by making allowances for impaired loans. Individually impaired loans are loans for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loan. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.
Credit exposures in arrears are defined as credit exposures for which contractual interest and/or principal payments are overdue.
The quality of the loan portfolio is monitored on an ongoing basis. The measure for loan portfolio quality is the portfolio at risk (PAR), which the Bank defines as all credit exposures outstanding with one or more payment of interest and/or principal in arrears by more than 30 days.
Typically, the primary sign of impairment of a credit exposure is that it is in arrears by more than 30 days. This means that any principal and/or interest payment from a client that is overdue by more than 30 days is viewed as evidence of impairment.
The Bank also views a credit exposure as being impaired if it obtains objective evidence for impairment – even if the credit exposure is not in arrears by more than 30 days.
If the loan is impaired, the total credit exposure towards the client is taken into consideration and the contamination principle applies. This means that once one loan is impaired, every individual loan to the client and to related parties will be reviewed in order to determine the extent to which other loans to the client or the group are also impaired.
The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit analyst judgment and are validated, where appropriate, by comparison with externally available data. Clients of the Bank are segmented into four rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary.
The Bank regularly validates the performance of the rating tools and their predictive power with regard to default events.

Bank's internal ratings scale

Bank's rating	Description of the grade
<=30 days	Investment grade
31-90 days	Standard monitoring
91-180 days	Special monitoring
>180 days	Sub-standard

The criteria for classification of financial assets or contingent liabilities into these groups are as follows:

Financial assets or contingent liabilities are assigned to the **Investment grade** group if they consist of exposures:
- to debtors which are not likely to default and which meet their payment obligations in a timely manner, with a maximum delay in payment of 30 days, and
- which are secured by pledged collateral graded as first class collateral.

Financial assets or contingent liabilities are assigned to the **Standard monitoring** group if they consist of exposures to debtors:
- whose cash flows are assessed as adequate to duly fulfil their due obligations, regardless of whether or not their present financial position is assessed as weak, without signs of further deterioration in the future; and
- which settle their liabilities with a delay of between 31 and 90 days.

Financial assets or contingent liabilities are assigned to the **Special monitoring** group if they are consist of exposures to debtors:
- whose cash flows are assessed to be not sufficient for regular repayment of matured liabilities, or
- which settle their liabilities with a delay of between 91 to 180 days, or
- which are clearly undercapitalised, or
- which do not have sufficient long-term capital resources to finance long-term investments, or
- from which the Bank does not currently receive satisfactory information or adequate documentation concerning repayment of liabilities.

Financial assets or contingent liabilities are assigned to the **Substandard** group if they consist of exposures to debtors:
- for which there is a strong likelihood of loss of part or all of the financial asset, or of payment in respect of contingent liabilities, or
- which settle their liabilities with a delay of more than 180 days, or
- which are insolvent, or
- for which a motion for commencement of process of liquidation or declaration of bankruptcy has been initiated and filed at the provisional court, or
- which are in the process of reform or in the process of liquidation, or

- which have declared bankruptcy, or
- from which no repayment is expected, or
- for whose collateral the Bank may have questionable legal grounds for seizure.

Loans and advances with renegotiated terms include extended payment arrangements, approved external management plans, modification and deferral of payments. Once the loan is restructured, it remains in this category independent of the satisfactory performance after restructuring. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review.
Loans and advances with renegotiated terms include extended payment arrangements, approved external management plans, modification and deferral of payments.
Restructuring of a credit exposure is generally necessitated by economic problems encountered by the client that adversely affect payment capacity, mostly caused by the significantly changed macro-economic environment in which the Bank's clients currently operate. Restructurings follow a thorough, careful and individual analysis of the client's changed payment capacity.
Restructured credit exposures are not generally considered to be in arrears but are treated according to their current status. The Bank draws a distinction between standard restructured, watch restructured and impaired restructured credit exposures. Restructurings of credit exposures are generally necessitated by economic or payment problems encountered by the client. The decision to restructure a credit exposure is always taken by a credit committee or arrears committee and aims at full recovery of the credit exposure. If a credit exposure is restructured, amendments are made to the parameters of the loan. Otherwise, these credit exposures for which the terms have been renegotiated would be past due or impaired.

4.1.2 Impairment and provisioning policies

The internal rating systems described in Note 4.1.2 focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. The impairment provision shown in the statement of financial position at year-end is derived from each of the internal rating grades. However, the majority of the impairment provision comes from the bottom two grades. The table below shows the percentage of the Bank's on balance sheet items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

Bank's rating	2012	
	Loans and advances to customers (%)	Impairment provision(%)
Investment grade	95.5	1.5
Standard monitoring	2.2	15.7
Special monitoring	0.8	38.8
Sub-standard	1.6	38.1
	100	**2.6**
2011		
Investment grade	96.9	1.5
Standard monitoring	1.4	30.1
Special monitoring	0.8	48.5
Sub-standard	0.9	56.0
	100	**3.0**

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the criteria set out in Note 3.6.
The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when required by individual circumstances. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at reporting date on a case-by-case basis, and are applied to all individually significant accounts.
The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.
Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are considered individually insignificant; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

4.1.3 Maximum exposure to credit risk before collateral held or other credit enhancement

	Maximum exposure	
	2012	**2011**
Placements at the Central Bank and other banks	48,499	50,068
Loans and advances to customers	253,673	239,861
-Overdrafts	1,090	976
-Housing	13,189	15,761
-Consumer	11,870	10,289
-Very small business	51,436	51,174
-Small	82,501	74,807
-Medium	78,443	69,841
-Agricultural	15,144	17,013
Other financial assets	1,481	1,325
Credit risk exposure relating to off-balance sheet items are as follows:		
Loan commitments	17,171	19,406
Financial guarantees and letters of credit	21,551	16,039
Total	**342,375**	**326,699**

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2012 and 31 December 2011, without taking account of any collateral held or other credit enhancements attached.
For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

4.1.4 Assets exposed to credit risk

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of loans and advances to customers

	31 Dec 2012	31 Dec 2011
Neither past due nor impaired (no arrears)	229,150	224,732
Individually assessed	*390*	*1,491*
Collectively assessed	*228,760*	*223,241*
Past due but not impaired (1-30 days)	19,502	14,290

Individually assessed	*194*	*3,612*
Collectively assessed	*19,308*	*10,678*
Impaired (arrears of more than 30 days)	11,892	7,585
Individually assessed	*8,447*	*4,426*
Collectively assessed	*3,445*	*3,159*
Gross	**260,544**	**246,607**
Specific impairment	972	938
Collective impairment	5,899	5,808
Total impairment	6,871	6,746
Net	**253,673**	**239,861**

(a) Assets neither past due nor impaired (no arrears)

The credit quality of the portfolio of loans and advances that were

31 December 2012							**Loans and advances to customers**	
	Overdraft	**Housing**	**Others**	**Very small**	**Small**	**Medium**	**Agricultural**	**Total**
No arrears	1,025	12,272	11,081	46,002	74,819	71,063	12,888	229,150
Total	**1,025**	**12,272**	11,081	46,002	74,819	71,063	12,888	229,150

31 December 2011							**Loans and advances to customers**	
	Overdraft	**Housing**	**Others**	**Very small**	**Small**	**Medium**	**Agricultural**	**Total**
No arrears	915	14,777	9,686	45,826	71,458	67,333	14,737	224,732
Total	**915**	**14,777**	**9,686**	**45,826**	**71,458**	**67,333**	**14,737**	**224,732**

Information disclosed in the above tables is presented in gross amounts.

(b) Assets past due but not impaired (1-30 days)
The gross amounts of loans and advances to customers by class that were past due but not impaired were as follows:

31 December 2012							**Loans and advances to customers**	
	Overdraft	**Housing**	**Others**	**Very small**	**Small**	**Medium**	**Agricultural**	**Total**
Past due but not impaired (1 -30 days)	58	855	779	4,527	5,636	5,674	1,973	19,502
Total	**58**	855	779	4,527	5,636	5,674	1,973	19,502

31 December 2011							**Loans and advances to customers**	
	Overdraft	**Housing**	**Others**	**Very small**	**Small**	**Medium**	**Agricultural**	**Total**
Collateral								
Pledge, mortgage and cash collateral	-	399	331	3,241	5,380	5,660	1,732	16,743
Other collateral*	**58**	**456**	**448**	**1,286**	**14**	**14**	**241**	**2,759**

31 December 2012							**Loans and advances to customers**	
	Overdraft	**Housing**	**Others**	**Very small**	**Small**	**Medium**	**Agricultural**	**Total**
Past due but not impaired (1 -30 days)	47	764	595	4,735	2,679	3,277	2,193	14,290
Total	**47**	764	595	4,735	2,679	3,277	2,193	14,290

31 December 2011							**Loans and advances to customers**	
	Overdraft	**Housing**	**Others**	**Very small**	**Small**	**Medium**	**Agricultural**	**Total**
Collateral								
Pledge, mortgage and cash collateral	-	259	220	3,089	2,588	3,251	1,454	10,861
Other collateral*	**47**	**505**	**375**	**1,646**	**91**	**26**	**739**	**3,429**

Information disclosed in the above tables is presented in gross amounts.

***Other collateral includes guarantors, co-signers and promissory notes.**

(c) Assets impaired (arrears of more than 30 days)

The breakdown of the gross amount of individually impaired loans and advances to customers by class is as follows:

31 December 2012							Loans and advances to customers	
	Overdraft	Housing	Others	Very small	Small	Medium	Agricultural	Total
Standard monitoring	34	101	239	1,151	1,378	2,434	506	5,843
Special monitoring	10	185	78	665	735	-	297	1,970
Sub-standard	11	108	96	1,608	1,386	552	318	4,079
Total	**55**	**394**	**413**	**3,424**	**3,499**	**2,986**	**1,121**	**11,892**

31 December 2011							Loans and advances to customers	
	Overdraft	Housing	Others	Very small	Small	Medium	Agricultural	Total
Collateral								
Pledge, mortgage and cash collateral	-	125	113	2,237	3,280	2,651	847	9,253
Other collateral*	**55**	**269**	**300**	**1,187**	**219**	**335**	**274**	**2,639**

31 December 2012							Loans and advances to customers	
	Overdraft	Housing	Others	Very small	Small	Medium	Agricultural	Total
Standard monitoring	42	513	168	1,066	1,162	-	521	3,472
Special monitoring	**11**	97	101	1,077	336	-	244	1,866
Sub standard	8	109	64	879	573	326	288	2,247
Total	**61**	**719**	**333**	**3,022**	**2,071**	**326**	**1,053**	**7,585**

31 December 2011							Loans and advances to customers	
	Overdraft	Housing	Others	Very small	Small	Medium	Agricultural	Total
Collateral								
Pledge, mortgage and cash collateral	-	250	17	1,614	1,931	326	425	4,563
Other collateral*	61	469	316	1,408	140	-	628	3,022

Information disclosed in the above tables is presented in gross amounts.
***Other collateral includes guarantors, co-signers and promissory notes.**

(d) Loans and advances with renegotiated terms

Renegotiated loans that would otherwise be past due or im paired totalled BAM 6,633 thousand at31 December 2012 (2011: BAM 7,388 thousand).

	2012	2011
Loan portfolio	260,544	246,607
Restructured loans	6,633	7,388
Restructured loans in % of loan portfolio	2.5%	3.0%

(e) Loans and advances to customers

The Bank holds collateral against loans and advances to customers in the form of mortgage interest over property, pledge over moveable assets, cash deposits, as well as other collateral in form of guarantees, co-debtorship and bills of exchange. Estimates of fair value of property and moveable assets pledged as collateral are based on the value of collateral assessed at the time of borrowing, weighted by the value of the loan in the total exposure secured by the same collateral,up to the outstanding balance of related secured exposure. The value of other collateral, which includes guarantees, co-debtorship and bills of exchange, is weighted in the same manner up to the outstanding balance of the related secured exposure. Collateral is not held against loans and advances to Banks and financial assets available for sale.

The breakdown of the gross amount of loans and advances by class, along with the value of related collateral held by the Bank as security, is as follows:

31 December 2012							Loans and advances to customers
	Overdraft	Housing	Others	Very small	Small	Medium	Agricultural
Individually impaired loans	0	165	76	2,215	3,431	2,782	362
Collectively impaired loans	1,138	13,358	12,195	51,736	80,524	76,941	15,621
Collateral							
Pledge, mortage and cash collateral	59	8,435	5,236	37,854	68,855	73,185	13,658
Other collateral*	1079	5,088	7,035	16,097	15,100	6,538	2,325

31 December 2012							Loans and advances to customers
	Overdraft	Housing	Others	Very small	Small	Medium	Agricultural
Individually impaired loans	-	402	133	2,684	3,415	2,584	311
Collectively impaired loans	1,023	15,857	10,481	50,900	72,793	68,352	17,672
Collateral							
Pledge, mortage and cash collateral	22	9,192	3,948	37,071	67,073	68,313	13,678
Other collateral*	1,001	7,067	6,666	16,513	9,135	2,623	4,305

Management considers the loans covered by collateral as impaired because experience shows that a significant proportion of the collateral cannot be enforced due to administrative and legal difficulties. The impairment provisions reflect the probability that management will not be able to enforce its rights and repossess collateral on defaulted loans.

As at 31 December 2012 the Bank did not hold any repossessed property or other type of collateral. It applies also for 31 December 2011.

*Other collateral includes guarantors, co-signers and promissory notes.

4.1.5 Concentration of risks of financial assets with credit risk exposure

The Bank monitors concentrations of credit risk by economic sector and by geographic location. The structure of the loan portfolio is regularly reviewed within the Risk Department and Credit Risk Management Committee in order to identify potential events which could have an impact on large areas of the loan portfolio (common risk factors) and, if necessary, limit the exposure towards certain sectors of the economy.

Credit portfolio risk is limited by the Bank's credit strategy; in particular the focus on small and very small loans and the broad geographical and economic sector diversification of the loan portfolio. An analysis of such concentrations at the reporting date is shown below:

Economic sector risk concentrations

	Wholesale and retail	Agriculture, forestry and fishing	Production	Individuals	Construction	Tourism, catering	Other	Total
Loans and advances to customers								
-Overdrafts	-	63	-	1,027	-	-	-	1,090
-Housing -	-	-	10	13,179	-	-	-	13,189
-Consumer	-	-	-	11,870	-	-	-	11,870
Loans to corporate entities:								
-Very small	21,728	1,982	8,577	-	4,484	2,875	11,790	51,436
-Small	37,395	1,608	18,876	-	7,052	1,991	15,579	82,501
-Medium	32,441	2,089	26,984	-	4,195	5,075	7,659	78,443
-Agricultural	32	12,617	418	-	19	-	2,058	15,144
Financial assets available for sale	-	-	-	-	-	-	39	39
Other financial assets	-	-	-	-	-	-	1,481	1,481
As at 31 December 2012	**91,596**	**18,359**	**54,865**	**26,076**	**15,750**	**9,941**	**38,606**	**255,193**
As at 31 December 2011	**88,189**	**18,013**	**49,466**	**26,959**	**12,160**	**10,286**	**36,222**	**241,295**

The Bank follows a guideline that limits concentration risk in the loan portfolio by ensuring that large credit exposures (those exceeding 10% of regulatory capital) require the approval by the Group Risk Management Committee.

Larger credit exposures are analysed and monitored, both by the responsible employees through regular monitoring activities enabling early detection of risks, and through the regular reviews carried out by the Credit Risk Management Committee of the Bank. Full information about any related parties is typically collected prior to lending.

Geographic risk concentrations of the assets mainly relate to the region of Bosnia and Herzegovina.

	Bosnia and Herzegovina	OECD countries	Non-OECD countries	Total
Placements at the CB and other banks	20,737	27,224	538	48,499
Loans and advances to customers				
-Overdrafts	1,090	-	-	1,090
-Housing -	13,189	-	-	13,189
-Consumer	11,870	-	-	11,870
-Very small	51,436	-	-	51,436
-Small	82,501	-	-	82,501
-Medium	78,443	-	-	78,443
-Agricultural	15,144	-	-	15,144
Financial assets available for sale	-	-	39	39
Other financial assets	1,481	-	-	1,481
As at 31 December 2012	**275,891**	**27,224**	**577**	**303,692**
As at 31 December 2011	**280,633**	**10,517**	**213**	**291,363**

4.2 Market risk

The Bank takes on exposure to market risk. Market risk is the risk that changes in market prices,such as interest rates, equity prices, foreign exchange prices and credit spreads, and the resulting changes in an obligor's or issuer's credit standing, will have an effect on the Bank's income. The objective of market risk manage ment is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Market risks arise from open positions in interest rate, foreign currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Management Board sets limits and guidelines for managing, analysing and controlling market risk exposures within acceptable parameters while optimising the return on risk. The Assets and Liabilities Committee (ALCO) manages the short- and long-term liquidity position and exposures to market risk, which are regularly monitored by Risk Management Committees of the Bank. The Risk Department is responsible for the development and implementation of risk management policies.The Bank has a low level of exposure to market risk because it does not engage in speculative transactions or in proprietary trading. Management of risk in this area is limited to protecting the institution from adverse movements in exchange and interest rates.

4.2.1 Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. Foreign currency exposure arises from credit, deposit-taking and trading activities. The Management Board sets limits on the level of exposure by currency and in total for overnight positions, which are monitored on a daily basis by the Treasury Department. Based on the department's reports, the Bank's ALCO takes strategic currency decisions. Bosnia and Herzegovina is under a currency board regime according to which the local currency (BAM) is pegged to the EUR currency. The Bank's balance sheet positions are mainly in local currency and EUR currency so the Bank's exposure toward currency risk is low. The table below summarises the Bank's exposure to currency risk at 31 December 2012. Included in the table are the Bank's assets and liabilities at carrying amounts categorised by currency.

The assets and liabilities of the Bank are denominated in more than one currency. If the assets and liabilities in one currency do not match, the Bank has an open currency position (OCP) and is exposed to potentially unfavourable changes in exchange rates.

Concentration of currency risk of on- and off-balance sheet assets and liabilities

The currency table reflects the currency clause in the contracts i.e. the amounts are classified based on the currency clause, not based on the actual currency of the cash flows.

The Bank had the following significant currency positions:

As at 31 December 2012	EUR and EURlinked	USD	BAM	Other	Total
Assets					
Cash and cash equivalents	26,010	3,102	6,981	1,430	37,523
Obligatory reserve with Central Bank	-	-	20,210	-	20,210
Loans and advances to customers	174,207	-	79,466	-	253,673
Other financial assets	245	3	1,233	-	1,481
Total assets	**200,462**	**3,105**	**107,890**	**1,430**	**312,887**
Liabilities and equity					
Deposits from customers	145,566	3,152	97,329	929	246,976
Borrowings	25,334	-	3,191	-	28,525
Subordinated debt	16,085	-	-	-	16,085
Other financial liabilities	228	1	659	-	888
Total liabilities and equity	**187,213**	**3,153**	**101,179**	**929**	**292,474**
Net foreign exchange position	13,249	(48)	6,711	501	20,413
Contingencies and commitments	6,415	278	31,732	157	38,582

A 10% fall in the value of currencies (other than EUR) against the BAM, with other variables remaining constant, would result in a decrease in the result for the year by BAM 45 thousand (2011: BAM 38 thousand).
A 10% rise in the value of such currencies would result with an increase in the result for the year of BAM 45 thousand (2011: BAM 38 thousand).

As at 31 December 2012	EUR and EURlinked	USD	BAM	Other	Total
Assets					
Cash and cash equivalents	11,903	2,138	26,080	1,269	41,390
Obligatory reserve with Central Bank	-	-	20,291	-	20,291
Loans and advances to customers	181,245	-	58,616	-	239,861
Other financial assets	155	27	1,143	-	1,325
Total assets	**193,303**	**2,165**	**106,130**	**1,269**	**302,867**
Liabilities and equity					
Deposits from customers	121,960	2,101	85,193	951	210,205
Borrowings	44,291	-	3,191	-	47,482
Subordinated debt	16,079	-	-	-	16,079
Other financial liabilities	155	2	773	-	930
Total liabilities and equity	**182,485**	**2,103**	**89,157**	**951**	**274,696**
Net foreign exchange position	10,818	62	16,973	318	28,171
Contingencies and commitments	3,878	37	31,407	-	35,322

4.2.2 Interest rate risk

Interest rate risk specifies the risk that movements in market interest rates will adversely affect the Bank's capital and interest earnings. Two subcategories are identified: the economic value risk and interest earnings risk. The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in future cash flows or fair values of financial instruments because of a change in market interest rates. The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature at different times and different amounts. It is the responsibility of the bank's ALCO to keep the interest rate risk exposure within the set limits at all times. Before ALCO decides on a strategy that changes the asset/liability structure in such a way that a limit might be exceeded, the bank's risk management department calculates the interest structure that would result from the strategy. The Bank's ALCO is responsible for managing the compliance with set limits. Both the Bank's ALCO and the Bank's Risk Management Committee have the authority to decide on all final proposals to them Managament Board related to the interest rate exposure modifications within the set limits. Principally, the interest rate risk is managed through monitoring interest rate gaps and by setting pre-approved limits for reprising bands.

Interest rate risk arises from differences between the maturities of assets and those of liabilities.Currently, the average maturity of loans is shorter than the average maturity of customer deposits, as a result of the implementation of loans with variable interest rates. There is a danger that the refinancing of loans will become more expensive if deposit interest rates decrease. However, interest rates in Bosnia and Herzegovina remained stable in 2012.

Among the various tools used to measure and analyse interest rate risk is maturity gap analysis.All interest rate-sensitive on- and off-balance sheet assets and liabilities are classified in predefined time buckets according to their remaining contractual maturity or next scheduled interest rate adjustment, and the gap (assets minus liabilities) is calculated for each time bucket.Stress testing is also used to analyse the impact of interest rate shifts on interest income.

Throughout 2012, the Bank continued its policy of minimising interest rate risk in its banking book. The Bank's goal is to match repricing profiles between assets and liabilities, and only uses-derivatives to hedge its interest rate risk position in exceptional cases. The Bank had low exposure regarding the interest rate risk exposure and due to this the Bank never used derivatives.

Scenario analyses of yield curve shifts are carried out separately for each material operating currency, such as total economic value impact in present value and cumulative interest earnings impact (profit or loss) for a 3-month and 1-year period in present value. The analyses are completed separately for both the most probable scenario and the worst case scenario, which assumes risk of concentration in financial market-based interest rates.

The scenario analysis provides an estimation of how the changes in the interest rate structure may affect the earnings and the economic value of the Bank.

The Bank seeks to ensure that the balance sheet structure is as balanced as possible across all maturities.

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

As at 31 December 2012	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non interest bearing	Total
Assets							
Cash and cash equivalents	27,898	-	-	-	-	9,625	**37,523**
Obligatory reserve with Central Bank	20,210	-	-	-	-	-	**20,210**
Loans and advances to customers	43,019	57,727	68,544	76,575	7,494	314	**253,673**
Other financial assets	-	-	-	-	-	1,481	**1,481**
Total assets	**91,127**	**57,727**	**68,544**	**76,575**	**7,494**	**11,420**	**312,887**
Liabilities and equity							
Deposits from customers	32,185	11,929	73,368	66,285	392	62,817	**246,976**
Borrowings	-	7,823	9,251	5,430	5,885	136	**28,525**
Subordinated debt	-	-	-	8,801	6,846	438	**16,085**
Other financial liabilities	-	-	-	-	-	888	**888**
Total liabilities and equity	**32,185**	**19,752**	**82,619**	**80,516**	**13,123**	**64,279**	**292,474**
Interest sensitivity gap	**58,942**	**37,975**	**(14,075)**	**(3,941)**	**(5,629)**	**(52,859)**	**20,413**

As at 31 December 2012	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non interest bearing	Total
Assets							
Cash and cash equivalents	29,547	-	-	-	-	11,843	**41,390**
Obligatory reserve with Central Bank	20,291	-	-	-	-	-	**20,291**
Loans and advances to customers	36,349	48,700	59,244	87,788	7,727	53	**239,861**
Other financial assets	-	-	-	-	-	1,325	**1,325**
Total assets	**86,187**	**48,700**	**59,244**	**87,788**	**7,727**	**13,221**	**302,867**
Liabilities and equity							
Deposits from customers	32,688	10,355	23,732	87,592	492	55,346	**210,205**
Borrowings	-	35,945	7,921	-	3,170	446	**47,482**
Subordinated debt	-	-	-	8,801	6,846	432	**16,079**
Other financial liabilities	-	-	-	-	-	930	**930**
Total liabilities and equity	**32,688**	**46,300**	**31,653**	**96,393**	**10,508**	**57,154**	**274,696**
Interest sensitivity gap	**53,499**	**2,400**	**27,591**	**(8,605)**	**(2,781)**	**(43,933)**	**28,171**

Based on the above interest rate sensitivity, at 31 December 2012, if interest rates had been 1% lower with all other variables remaining constant, the result for the year would have been BAM252 thousand (2011: BAM 223 thousand) lower. Conversely, a 1% increase in interest rates wouldhave increased the result for the year by the same amount. The interest rate sensitivity analysis includes all variable interest rate assets and liabilities and assumes that all short-term fixed rate assets and liabilities are reinvested upon maturity.

4.3 Liquidity risk

Liquidity risk in the narrowest sense (risk of insolvency) is the danger that the Bank will no longer be able to meet its current and future payment obligations in full, or in a timely manner. Liquidity risk in a broader sense (funding risk) is the danger that additional funding can no longer be obtained, or can only be obtained at increased market interest rates. The Bank's ALCO is responsible for deciding on all final proposals undertaken to manage liquidity and is also responsible for making strategic proposals to the Management Board.

The Supervisory Board has approved the Bank's Liquidity Risk Management Programme. The Bank manages liquidity risk by seeking to apply the optimum combination of maturity and foreign currency structure of the assets and liabilities. To determine the robustness of the Bank's liquidity in the face of potential shocks, the Risk Department performs regular stress tests based on scenarios defined in the Liquidity Risk Management Policy. If negative gaps are found contingency plans are discussed by the ALCO and approved by the Management Board. Throughout 2011, all of the Bank's liquidity indicators remained in compliance with the defined limits. Several factors inherent to the Bank's business model serve to offset liquidity risk. Firstly, the Bank has a diversified portfolio of loans that are mostly repaid in monthly instalments.Secondly, customer deposits are diversified, i.e. they are spread across a large number of depositors each holding relatively small amounts.

Sources of liquidity are regularly reviewed by the Treasury Department and the Risk Department, on the basis of which measures are decided upon by the ALCO and the Risk Management Committee of the Bank with the aim of maintaining broad diversification by currency, geography, provider, product and term. The primary responsibility for identifying, assessing, addressing, monitoring and communicating the Bank's liquidity and funding risk lies with the Management Board. The Treasury Department manages the liquidity situation on a daily basis. Liquidity risk is monitored in the regular ALCO meetings, in which members of the Management Board participate. The Risk Management Department is responsible for controlling and monitoring liquidity risk, ensuring that it is in line with the Liquidity Risk Management Programme and the limits which it sets, and is also responsible for monitoring to ensure that the measures defined by the ALCO are being put into practice.

The key tools for measuring liquidity risks are liquidity gap analyses, which estimate future funding needs or the levels of excess liquidity, applying different assumptions. Based on the maturity gap analyses, certain key liquidity indicators are calculated on at least a monthly basis and are closely monitored. One important indicator of short-term liquidity is the sufficient liquidity indicator (SLI), which compares the amounts of assets and liabilities available within the next 30 days, and must not fall below 1 for each material currency. This implies that the Bank always has sufficient funds to be able to repay the liabilities expected to be due within the next 30 days. At 31 December 2012 this ratio was 3.7 , while at 31 December 2011 it was 2.8.

Another short-term key indicator is the highly liquid assets indicator, which relates highly liquid assets to customer deposits. The indicator must always exceed 20%, which implies that the Bank always holds funds which can quickly be converted into cash in order to repay 20% of all customer deposits. At 31 December 2012 this ratio was 28,5%, while at 31 December 2011 it was 30%.

The Bank also analyses its liquidity situation from a more structural perspective, taking into account the liquidity gaps of the different time buckets and additional sources of potential liquidity. This analysis also takes into account credit lines which can be drawn by the Bank with some lead time, potential outflows due to unused approved exposures, and other assets which take some time to liquidate.

Depositor concentrations are monitored in order to avoid dependencies on a few large depositors. According to the Bank's internal guidelines a significant depositor concentration exists if the 10 largest deposits exceed 20% of total customer deposits. At 31 December 2012 this ratio was 15% while at 31 December 2011 it was 12%.

In 2012 the Bank's loan portfolio grew, but so did its deposits base. As a consequence, during 2012 the Bank's overall liquidity situation has not changed, and the Bank still has an excess of liquid funds.

The table below divides the assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Other assets and liabilities which do not have contractual maturity are classified into relevant maturity groupings in accordance with the Bank's plan.

As at 31 December 2012	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	37,523	-	-	-	-	37,523
Obligatory reserve with Central Bank	20,210	-	-	-	-	20,210
Loans and advances to customers	25,170	39,485	86,567	122,578	16,550	290,350
Other financial assets	1,481	-	-	-	-	1,481
Total assets	**84,384**	**39,485**	**86,567**	**122,578**	**16,550**	**349,564**
Liabilities and equity						
Deposits from customers	94,499	13,069	78,928	71,042	428	257,966
Borrowings	-	3,216	1,872	14,215	12,399	31,702
Subordinated debt	-	-	1,962	13,313	10,482	25,757
Other financial liabilities	888	-	-	-	-	888
Total liabilities and equity	**95,387**	**16,285**	**82,762**	**98,570**	**23,309**	**316,313**
Net liquidity gap	**(11,003)**	**23,200**	**3,805**	**24,008**	**(6,759)**	**33,251**
Contingencies and commitments	6,056	14,860	14,127	3,539	-	38,582
Financial guarantees and letters of credit	1,493	3,494	12,944	3,531	-	21,462
Loan commitments	4,563	11,366	1,183	8	-	17,120

As at 31 December 2012	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	41,390	-	-	-	-	41,390
Obligatory reserve with Central Bank	20,291	-	-	-	-	20,291
Loans and advances to customers	38,725	17,405	75,171	130,881	20,420	282,602
Other financial assets	1,325	-	-	-	-	1,325
Total assets	**101,731**	**17,405**	**75,171**	**130,881**	**20,420**	**345,608**
Liabilities and equity						
Deposits from customers	87,565	11,573	26,314	94,464	570	220,486
Borrowings	-	30,021	12,034	3,270	3,326	48,651
Subordinated debt	-	-	1,956	14,109	11,211	27,276
Other financial liabilities	930	-	-	-	-	930
Total liabilities and equity	**88,495**	**41,594**	**40,304**	**111,843**	**15,107**	**297,343**
Net liquidity gap	**13,236**	**(24,189)**	**34,867**	**19,038**	**5,313**	**48,265**
Contingencies and commitments	5,858	16,147	10,660	2,657	-	35,322
Financial guarantees and letters of credit	602	2,731	9,984	2,657	-	15,974
Loan commitments	5,256	13,416	676	-	-	19,348

Off-balance sheet items maturity

(a) Loan commitments

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

(b) Financial guarantees and letters of credit

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

(c) Operating lease commitments

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

As at 31 December 2012	No later than 1 year	1-5 years	Over 5 years	Total
Assets				
Operating lease commitments	1,928	4,197	1,045	7,170
Total	**1,928**	4,197	1,045	7,170
As at 31 December 2012				
Operating lease commitments	2,593	7,920	1,585	12,098
Total	2,593	7,920	1,585	1,585

4.4 Operational risk

Operational risk is recognised as an important risk factor for the Bank, given that it relies on decentralised processing and decision-making. In line with Basel II, the Bank defines operational risk as the risk of loss resulting frominadequate or failed internal processes, people and systems and/or external events. This category includes all "risk events" in the areas of personnel, processes, and information technology. Operational risk is managed in accordance with Bank's Operational Risk Management Policy .The principles outlined in this document have been designed to effectively manage the Bank's operational risk exposure. They are in compliance with the Basel II requirements for the "standard approach".

The overall framework for managing operational risks is best described as a complementary and balanced system comprising the following key components: Corporate Culture, Governance Framework, Policies and Procedures, Risk Assessments, New Risk Approvals (NRAs), Key Risk Indicators and the Risk Event Database.

While the Corporate Culture, the Governance Framework, and Policies and Procedures define the basic cultural and organisational parameters, Risk Assessments, New Risk Approvals (NRAs), Key Risk Indicators and the Risk Event Database form the key instruments with which the risk management process is executed.

The overall objectives of the ProCredit Bank's approach to the management of operational risks are:

- to understand the drivers of the bank's operational risks;
- to be able to identify critical issues as early as possible;
- to avoid losses caused by operational risks; and
- to ensure efficient use of the bank's capital.

To deliver on these goals the following tools and processes have been implemented within the framework outlined above. They are presented in the sequence in which they are used within the operational risk management process. This process is subdivided into the following phases: identification, evaluation, treatment, monitoring, documentation and communication, and follow up.

- **Identification**
  – Annual operational risk assessments
  – Detailed process reviews as appropriate
  – New risk approval (NRA) process
  – Risk identification and documentation in the Risk Event Database (RED)
  – Ad hoc identification of potential risks
- **Evaluation / quantification**
  – Agreed standards to quantify risks
- **Mitigation and treatment**
  – Implementation of measures to avoid, reduce or mitigate the risks depending on priorities, efficiency considerations and regulations
  – Transfer of risk to an insurer or other party
- **Monitoring and control**
  – Process owners' responsibility to monitor risks
  –Key risk indicators (KRIs) and operational risk reports, risk bearing capacity
  calculation and monitoring
- **Communication, escalation, documentation**
  – Escalation levels to management bodies, regular reporting, risk committees
  – RED, management summary documents for risk events
- **Issue tracking / follow-up tables for material action plans**
  – Follow-up tools used in the bank

As part of their initial training, all new staff members are taught how to recognise and avoidoperational risk and how to maintain information security.

As of 31 December 2012, no significant legal proceedings were pending.

4.5 Fair values of financial assets and liabilities

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair value.

As at 31 December 2012	Carrying value		Fair value	
	2012	2011	2012	2011
Assets				
Loans and advances to customers	253,673	239,861	252,564	238,510
Liabilities				
Deposits from customers	246,976	210,205	248,565	212,028
Borrowings	28,525	47,482	24,928	46,055
Subordinated debt	16,085	16,079	21,317	22,116

Financial assets available for sale are carried at cost as they do not have a quoted market price in an active market and their fair value cannot be reliably measured.

(i) Loans and advances to customers
The fair value of loans and advances is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. 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. The carrying value of loans with variable interest rate approximates their fair value.

(ii) Deposits from customers, borrowings and subordinated debt
The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The fair value of the term deposits at variable interest rates approximates their carrying values asof the reporting date.

4.6 Capital management

The Bank's objectives when managing capital, which is a broader concept than the item Equity in the statement of financial position, are:

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

Capital adequacy and the balance of capital are monitored regularly by the ALCO and the Bank's Management Board and reported to the Group Risk Management Committee, based on the relevant internal acts and regulations prescribed by the supervisory authority (Banking Agency of the Federation of Bosnia and Herzegovina). The required information and reports are submitted to the Banking Agency on a monthly and a quarterly basis. Aside from ratios prescribed by local regulator and Basel II capital ratios, the leverage ratio and risk bearing capacity are monitored on a monthly basis by the Bank's Risk Management Committee and the ProCredit Group Risk Management Committee. The table below summarises the composition of regulatory capital and the capital adequacy ratio of the Bank for the years ended 31 December 2012prepared in accordance with Banking Agency regulations.

Capital	**2012**	**2011**
Shareholders capital based on nominal amount of ordinary and permanent priority		
unaccumulated shares issued on the basis of money payments in shareholders capital	48,458	46,458
Amount of exchange premium issues fulfilled on the basis of the shares paid in	293	293
General legal reserves (reserves prescribed by the law)	23	-
Uncovered losses transferred from previous year	(11,896)	(12,106)
Amount of intangible assets:patents,licenses,concessions,investments in		
market research,trade mark,goodwill,etc.	(2,815)	(2,506)
Bank's core capital	**34,063**	**32,139**
Amount of general reserves for credit losses for bank`s assets		
evaluated as Category A-Good Assets	5,565	5,319
Amount of subordinated debts at most 50% of Core capital amount	15,647	15,647
Additional capital	**21,212**	**20,966**
Amount of missing loan loss reserves for regulatory requirement	(2,920)	(298)
Deducted items frombank's capital	(2,920)	(298)
Bank's net capital	52,355	52.807
Bank's net capital according to Banking Agency regulations	**52,355**	**52,807**
Risk of Risk Weighted Assets and Loan Equivalent	293,374	265,877
Weighted operational risk	32,445	40,334
Total weighted risk	325,819	306,211
Capital adequacy ratio	16.1%	17.2%

The minimum capital requirement according to Banking Agency regulations amounts to 12%.

5. Critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets andliabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on monthly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Bank, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Assets accounted for at amortised cost are evaluated for impairment on the basis described in Note 3.7.

(b) Taxation

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

(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.

6. Net interest income

Interest and similar income	2012	2011
Loans and advances to customers	26,816	26,754
Cash and cash equivalents	88	59
Obligatory reserve with the Central Bank	6	124
	26,910	**26,937**

Interest expense and similar charges		
Current accounts and deposits from customers	(7,134)	(6,367)
Borrowings and subordinated debt	(2,925)	(3,159)
	(10,059)	**(9,526)**

7. Net fee and commission income

Fee and commission income	2012	2011
Foreign payment transactions	1,142	1,107
Domestic payment transactions	904	956
Guarantees and letters of credit	596	407
Foreign exchange transactions	704	881
Western Union and card business	280	270
Accounts maintenance fees	781	763
Other payment transaction fees	387	340
Other fees and commissions from customers	479	544
	5,273	**5,268**

Fee and commission expense		
Banks	(238)	(224)
Other	(972)	(953)
	(1,210)	**(1,177)**

8. Foreign exchange gains

	2012	2011
Positive foreign exchange differences	45,476	63,540
Negative foreign exchange differences	(45,865)	(63,181)
	389	359

9. Other operating income

	2012	2011
Net (loss)/gain from disposal of property and equipment	(102)	107
Other	629	601
	527	**708**

10. Personnel expenses

	2012	2011
Salaries and wages	5,514	6,355
Taxes and contributions	3,879	4,386
Post-employment contributions (Note 24)	23	(4)
Food allowances and transportation	1,071	1,196
Reimbursement of expenses	(59)	(351)
Other	138	66
	10,566	**11,648**

The number of persons employed by the bank at year-end was 344 (2011: 427).

11. Other operating expenses

	2012	2011
Rent	2,418	2,650
Promotion and marketing	342	539
Consulting services	509	607
Insurance	1,376	1,549
Post and telecommunication services	406	543
Stationery	141	169
Maintenance of fixed assets and equipment	765	760
Utilities and electricity	500	607
Administrative, court and other legal fees	322	461
Transport	188	182
ProCredit group management fee	698	755
ProCredit group consulting services	313	410
Net impairment losses for maintenance fee and off balance	17	24
Other consumables	76	102
One-time working contracts	297	223
Other	985	762
	9,353	**10,343**

12. Net impairment release of provisions

	2012	2011
Loans to individuals (Note 16)	30	155
Loans to corporate entities (Note 16)	(353)	(1,662)
Other assets (Note 20)	99	60
	(224)	**(1,447)**

Income tax recognised in profit or loss includes current and deferred tax.

	2012	2011
Profit / (loss) before tax	(83)	(239)
Tax calculated at a tax rate of 10% (2011:10%)	(83)	(239)
Tax effects of items which are not deductible:		
- non-taxable income	(156)	(430)
- non-deductible expenses	18	170
Income tax benefit for the year	**(83)**	**(239)**

In accordance with the Law on Corporate Profit Tax, tax losses can be carried forward for reliefagainst profit of future accounting periods, but not for longer than 5 years.

Tax losses can be carried forward as follows:

	2012	2011
Up to 5 years	562	3,812
Up to 4 years	3,812	4,785
Up to 3 years	4,785	12,178
Up to 2 years	12,178	-
Up to 1 year	-	-
	21,337	**20,775**

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

14. Cash and cash equivalents

	2012	2011
Cash in hand	9,228	11,605
Current accounts with other banks	27,834	10,700
Balances with the Central Bank other than obligatory reserve	461	19,085
	37,523	**41,390**

15. Obligatory reserve with the Central Bank

	2012	2011
Obligatory reserve with the Central Bank	20,210	20,291
	20,210	**20,291**

The Central Bank of Bosnia and Herzegovina determines the requirement for banks to hold obligatory reserves in the form of amounts required to be deposited with the Central Bank. The obligatory reserve requirement at 31 December 2012 amounted to 7% for liabilities with maturity above 1 year and 10% for liabilities with maturity up to 1 year. The obligatory reserve is maintained through the average balance in the ordinary reserve account with the Central Bank.

16. Loans and advances to customers

Loans to individuals		
-short term	4,514	3,971
-long term	66,839	74,446
	71,353	**78,417**
Loans to corporate entities		
-short term	64,972	41,801
-long term	124,219	126,389
	189,191	**168,190**
Gross loans and advances to customers	**260,544**	**246,607**
Less: allowance for impairment	**(6,871)**	**(6,746)**
Net loans and advances to customers	**253,673**	**239,861**
Current (net)	135,007	113,298
Non-current (net)	118,666	126,563

Loans and advances to customers are presented including accrued interest in the amount of BAM 1,763 thousand (2011: BAM 1,625 thousand), and net of deferred fees in the amount of BAM 1,380 thousand (2011: BAM 1,528 thousand).

The movement in impairment allowance for loans and advances to customers is as follows:

	Individuals			
	Overdraft	**Housing**	**Others**	**Total**
Balance at 1 January 2012	47	498	292	837
Net charge/(release) to profit or loss(Note 12)	35	(140)	135	30
Net effect of amounts collected and written off	(34)	(19)	(21)	(74)
Unwinding of discount	-	(6)	(4)	(10)
Balance at 31 December 2012	**48**	**333**	**402**	**783**

	Corporate entities				
	Very Small business	Small business	Medium business	Agricultural	**Total**
Balance at 1 January 2012	2,445	1,400	1,097	967	**5,909**
Net charge/(release) to profit or loss(Note 12)	(399)	289	293	(536)	**(353)**
Net effect of amounts collected and written off	426	54	44	417	**941**
Unwinding of discount	(67)	(183)	(151)	(8)	**(409)**
Balance at 31 December 2012	**2,405**	**1,560**	**1,283**	**840**	**6,088**

	Individuals			
	Overdraft	**Housing**	**Others**	**Total**
Balance at 1 January 2011	76	350	372	798
Net charge/(release) to profit or loss(Note 12)	39	145	(29)	155
Net effect of amounts collected and written off	(68)	6	(50)	(112)
Unwinding of discount	-	(3)	(1)	(4)
Balance at 31 December 2011	**47**	**498**	**292**	**837**

	Corporate entities				
	Very Small business	Small business	Medium business	Agricultural	**Total**
Balance at 1 January 2012	2,794	1,271	809	1,361	**6,235**
Net charge/(release) to profit or loss(Note 12)	(1,077)	83	316	(984)	**(1,662)**
Net effect of amounts collected and written off	742	63	(15)	590	**1,380**
Unwinding of discount	(14)	(17)	(13)	-	**(44)**
Balance at 31 December 2011	**2,445**	**1,400**	**1,097**	**967**	**5,909**

17. Property and equipment

The cost of property and equipment and related depreciation for 2012 is presented below:

2012	Buildings	Leasehold Improvements	Furniture & Equipment	Assets in course of construction	**Total**
Cost					
Balance at 1 January 2012	448	4,392	14,464	292	**19,596**
Additions	17	49	431	10,543	11,040
Transfers	-	8	29	(37)	**0**
Disposals and write offs	-	(381)	(973)	-	(1,354)
Balance at 31 December 2011	465	4,068	13,951	10,798	**29,282**

Accumulated depreciation	Buildings	Leasehold Improvements	Furniture & Equipment	Assets in course of construction	Total
Balance at 1 January 2012	314	2,833	11,662	-	**14,809**
Charge for the year	6	333	872	-	1,211
Disposals and write offs	-	(196)	(903)	-	**(1,099)**
Balance at 31 December 2011	**320**	**2,970**	**11,631**	**-**	**14,921**
Carrying amount at					
31 December 2012	**147**	**1,098**	**2,320**	**10,798**	**14,361**
1 January 2012	**134**	**1,558**	**2,801**	**292**	**4,785**

In 2012 the bank purchased new premises which will become the new head office in 2013. The building is classified as ''assets in the course of construction'' as at December 2012.

The cost of property and equipment and related depreciation for 2011 is presented below:

2012	Buildings	Leasehold Improvements	Furniture & Equipment	Assets in course of construction	Total
Cost					
Balance at 1 January 2012	448	4,216	14,082	570	**19,316**
Additions	-	195	651	16	862
Transfers	-	60	234	(294)	**-**
Disposals and write offs	-	(79)	(503)	-	(582)
Balance at 31 December 2011	448	4,392	14,464	292	**19,596**

Accumulated depreciation	Buildings	Leasehold Improvements	Furniture & Equipment	Assets in course of construction	Total
Balance at 1 January 2012	308	2,551	11,056	-	**13,915**
Charge for the year	6	361	1,061	-	**1,428**
Disposals and write offs	-	(78)	(454)	-	**(532)**
Balance at 31 December 2011	**314**	**2,834**	**11,663**	**-**	**14,811**
Carrying amount at					
31 December 2011	**134**	**1,558**	**2,801**	**292**	**4,785**
1 January 2011	**140**	**1,665**	**3,026**	**570**	**5,401**

18 Intangible assets

2012	Software	Licences and other intangible assets	Assets in course of construction	Total
Cost				
Balance at 1 January 2012	337	2,943	-	**3,280**
Additions	20	431	632	**1,083**
Balance at 31 December 2012	357	3,374	632	**4,363**
Accumulated amortisation				
Balance at 1 January 2012	**270**	**2,063**	**-**	**2,333**
Charge for the year	**30**	**348**	**-**	**378**
Balance at 31 December 2012	**300**	**2,411**	**-**	**2,711**
Carrying amount at				
31 December 2012	**57**	**963**	**632**	**1,652**
1 January 2012	**67**	**880**	**-**	**947**

18 Intangible assets

2012	Software	Licences and other intangible assets	Total
Cost			
Balance at 1 January 2012	304	2,592	2,896
Additions	33	351	384
Balance at 31 December 2012	**337**	**2,943**	**3,280**
Accumulated amortisation			
Balance at 1 January 2012	251	1,697	1,948
Charge for the year	19	366	385
Balance at 31 December 2012	**270**	**2,063**	**2,333**
Carrying amount at			
31 December 2012	**67**	**880**	**947**
1 January 2012	**53**	**895**	**948**

19 Deferred tax assets

Deferred income taxes are calculated on all temporary differences under the balance sheet method using an effective tax rate of 10% (2011:10%).In accordance with the Law on Corporate Profit Tax, tax losses can be carried forward for relief against profit of future accounting periods, but for not longer than 5 years. The Bank has recognised deferred tax assets relating to unused tax losses carried forward, as the Management Board estimates that there will be future taxable profit against which the Bank can utilise these benefits.

Movement in deferred tax assets

	Loan impairment	Other items	Tax loss carried forward	Total
Balance at 1 January 2012	(71)	-	2,121	2,050
Origination and reversal of temporary differences	23	-	61	84
Balance at 31 December 2012	**(48)**	**-**	**2,182**	**2,134**
Balance at 1 January 2012	(85)	5	1,891	1,811
Origination and reversal of temporary differences	14	(5)	230	239
Balance at 31 December 2011	**(71)**	**-**	**2,121**	**2,050**

20 Other assets

	2012	2011
Prepayments	384	378
Other assets	1,475	1,157
Impairment allowance	**(231)**	**(132)**
Total prepayments and other assets	1,628	1,403

Movement in allowances for other assets' impairment are as follows:

	2012	2011
Balance at 1 January	384	378
Net charge to profit or loss (Note 12)	1,475	1,157
Balance at 31 December	**231**	**132**

21 Deposits fromcustomers

Business customers	2012	2011
Current accounts and demand deposits	42,529	34,367
Term deposits	39,620	20,904
Individual customers		
Current accounts and demand deposits	43,854	46,619
Term deposits	120,973	108,315
	246,976	**210,205**
Current	180,299	120,895
Non-current	66,677	89,310

Deposits from business customers include BAM 7,114 thousand (2011: BAM 5,111 thousand) indexed to EUR.

22 Borrowings

	2012	2011
European Investment Bank (EIB)	17,417	-
Kreditanstalt für Wiederaufbau	-	1,831
The European Fund for Southeast Europe (EFSE)	4,897	4,945
Commerzbank	-	11,776
ProCredit Holding	44	19,764
International Fund for Agricultural Development	3,191	3,191
Blue Orchard	2,976	5,975
	28,525	**47,482**
Current	4,427	41,379
Non-current	24,098	6,103

The Bank has not had any defaults of principal or interest with respect to its borrowings.

Description of borrowings

-Loan agreement between the International Fund for Agricultural Development (IFAD) and ProCredit Bank d.d. Sarajevo amounted to EUR 1,067 thousand, interest rate 2%, final maturity is 8 February 2018.

-Loan agreement between the International Fund for Agricultural Development (IFAD) and ProCredit Bank d.d. Sarajevo amounted to EUR 554 thousands, interest rate 2%, final maturity is 25 December 2020.

-Loan agreement between the Blue Orchard and ProCredit Bank d.d. Sarajevo amounted to EUR 3,000 thousand, interest rate Euribor + 3.60%, final maturity is 28 February 2013.

-Loan agreement between the European Investment Bank and ProCredit Bank d.d. Sarajevo amounted to EUR 4,036 thousand, interest rate Euribor + 1.837%, final maturity is 30 November 2023.

-Loan agreement between the European Investment Bank and ProCredit Bank d.d. Sarajevo amounted to EUR 5,206 thousands, interest rate 2.256%, final maturity is 20 December 2019.

-Loan agreement between the European Fund for Southeast Europe (EFSE) Netherlands B.V. and ProCredit Bank d.d. Sarajevo amounted to EUR 2,500 thousand, interest rate Euribor + 3.75%, final maturity is 22 March 2017.

23 Subordinated debt

	2012	2011
Subordinated debt	16,085	16,079
	16,085	16,079
Current	438	432
Non-current	**15,647**	**15,647**

A subordinated loan agreement was signed between ProCredit Bank d.d. Sarajevo and ProCredit Holding AG on 31 August 2005. The loan bears interest at 8.9% p.a. The loan shall expire on 7 September 2015 and is repayable upon maturity.

An additional subordinated loan agreement was signed between ProCredit Bank d.d. Sarajevo and ProCredit Holding AG on 26 September 2007. The loan bears interest at 10.51% p.a. The loan shall expire on 26 September 2022 and is repayable upon maturity.

The Bank has not had any defaults of principal or interest or other breaches with respect to its subordinated debt.

24 Provisions

	2012	2011
Provisions for contingencies and commitments (Note 26)	140	123
Provisions for severance payments	117	94
Provisions for court cases	44	48
	301	**265**

Movement in provisions for contingencies and commitments is as follows:

	2012	2011
Balance at 1 January	123	99
Net (release)/charge to profit or loss (Note 11)	17	24
Balance at 31 December	140	123

Movement in provisions for severance payments is as follows:

	2012	2011
Balance at 1 January	94	98
Net (release)/charge to profit or loss (Note 10)	23	(4)
Balance at 31 December	117	94

Movement in provisions for court cases is as follows:

	2012	2011
Balance at 1 January	48	25
Net charge to profit or loss	(4)	23
Balance at 31 December	44	48

25 Share capital

	Share capital	
In BAM'000	**2012**	**2011**
On issue at 1 January	46,458	42,458
New shares issued	2,000	4,000
At 31 December	48,458	46,458

	Share capital	
In number of shares	**2012**	**2011**
On issue at 1 January	4,645,777	4,245,777
New shares issued	2,000	4,000
At 31 December	4,845,777	4,645,777

The Bank's share capital consists of 4,845,777 ordinary shares. All shares have a par value of BAM 10 and are fully paid.

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

Statutory reserves represent additional capital set aside by appropriation from net income. These reserves are used to cover losses and are not distributable. The shareholder structure of the Bank was as follows:

	% of voting share capital	
Name	**2012**	**2011**
ProCredit Holding AG & Co. KGaA	100.0	94.2
Commerzbank AG)	0.0	5.8
	100%	**100%**

26 Commitments and contingencies

The following table indicates the contractual amounts of the Bank's contingencies and commitments by category:

Guarantees	**2012**	**2011**
in domestic currency	14,667	12,108
in foreign currency	6,249	3,818
Letters of credit	635	113
Undrawn lending commitments	17,171	19,406
	38,722	35,445
Less: Provision for contingencies and commitments (Note 24)	**(140)**	**(123)**
	38,582	**35,322**

27 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and borrowings.
These transactions were carried out on commercial terms and at market rates. The volumes of related party transactions and outstanding balances at year-end are as follows:

Related party transactions for 2012

Accumulated depreciation	ProCredit Holding	Other group companies	Bank's management	Bank's management close family members	**Total**
Current accounts					
ProCredit Bank Bulgaria	-	200	-	-	200
ProCredit Bank Kosovo	-	40	-	-	**40**
ProCredit Bank Germany	-	**4,417**	-	**-**	**4,417**
Balance at 31 December	-	4,657	-	-	4,657
Other assets					
ProCredit Bank Kosovo	**-**	**49**	**-**	**-**	**49**
Quipu GmbH	**-**	**512**	**-**	**-**	**512**
ProCredit Holding	79	-	-	-	79
Balance at 31 December	**79**	**561**	**-**	**-**	**640**
Other liabilities					
ProCredit Bank Kosovo	-	32	-	-	32
Quipu GmbH	-	20	-	-	20
Balance at 31 December	**-**	**52**	**-**	**-**	**52**
Loans					
Loans outstanding at 1 January	-	-	91	-	91
Loan repayments during the year	-	-	(13)	-	(13)
Other decreases	-	-	(23)	-	(23)
Loans outstanding at 31 December	**-**	**-**	**55**	**-**	**55**
Interest income earned	**-**	**-**	**2**	**-**	**2**
Deposits					
Balance at beginning of year	-	-	19	20	39
Deposits received during the year	-	-	330	15	345
Deposits repaid during the year	-	-	(319)	(18)	(337)
Other decreases	-	-	(12)	-	(12)
Balance at 31 December	-	-	18	17	35

Accumulated depreciation	ProCredit Holding	Other group companies	Bank's management	Bank's management close family members	Total
Borrowings					
Loans outstanding at 1 January	35,830	-	-	-	35,830
Loans issued during the year	18,147	-	-	-	18,147
Loans repayments during the year	(37,801)	-	-	-	(37,801)
Balance at 31 December	**16,176**	-	-	-	**16,176**
Interest expenses on borrowings	2,099	-	-	-	2,099
Other expenses to group companies	79	566	-	-	645
Consulting fee1	864	-	-	-	864
Income from non-banking issues	76	-	-	-	76
Current accounts					
ProCredit Bank Bulgaria	-	38	-	-	38
ProCredit Bank Kosovo	-	10	-	-	**10**
Balance at 31 December	-	**48**	-	-	**48**
Other assets					
ProCredit Bank Kosovo	-	**44**	-	-	**44**
Quipu GmbH	-	**4**	-	-	**4**
ProCredit Holding	5	-	-	-	5
Balance at 31 December	**5**	**48**	-	-	**53**
Other liabilities					
ProCredit Bank Kosovo	-	28	-	-	28
ProCredit Academy Germany	-	1	-	-	1
ProCredit Holding	5	-	-	-	5
Balance at 31 December	**5**	**29**	-	-	**34**
Loans					
Loans outstanding at 1 January	-	-	134	-	134
Loan repayments during the year	-	-	11	-	11
Other decreases	-	-	(25)	-	(25)
Loans outstanding at 31 December	-	-	**91**	-	**91**
Interest income earned	-	-	**6**	-	**6**
Impairment losses for loans	-	-	(1)	-	(1)
Deposits					
Balance at beginning of year	-	-	28	17	45
Deposits received during the year	-	-	301	5	306
Deposits repaid during the year	-	-	(301)	-	(301)
Other decreases	-	-	(9)	2	(11)
Balance at 31 December	-	-	**19**	**20**	**39**
Interest expenses on deposits	-	-	-	1	1
Borrowings					
Loans outstanding at 1 January	16,085	-	-	-	16,085
Loans issued during the year	30,033	-	-	-	30,033
Loans repayments during the year	(10,288)	-	-	-	(10,288)
Balance at 31 December	**35,830**	-	-	-	**35,830**
Interest expenses on borrowings	1,972	-	-	-	1,972
Other expenses to group companies	81	632	-	-	713
Consulting fee1	996	-	-	-	996

1 Consulting fee relates to management fees for providing management services and support without VAT

27 Related party transactions (continued)

Key management compensation During the reporting period, total compensation paid to the management of the Bank amounted to:

	2012	2011
Salaries and other		
short-term benefits	162	209
Other long-term employee benefits	2	2
	164	**211**

Additional information

The address of its registered office is as follows:

Head office: Sarajevo
Address: Emerika Bluma 8
Bosnia and Herzegovina

Branch offices:

Sarajevo
Address: Topal Osman paše 26

Ilidža
Adress: Ibrahima LJubovića 20

Bihać
Adress: Safvet-bega Bašagića

Tuzla
Address: Turalibegova bb

Mostar
Adress: Biskupa Čule bb

Banja Luka
Adress: Kralja Petra I Karađorđevića 1

Bijeljina
Address: Atinska 1

Travnik
Adress: Bosanska bb

Zenica
Address: Corner of Maršala Tita bb
Islambegovića put

Service Points:

Otoka
Adress: Gradačačka

Ciglane
Adress: Merhemića trg bb

Ilidža
Adress: Pijačna br. 14K

Mostar
Adress: Braće Fejića bb

Banja Luka
Address: Brace Potkonjaka 4

Muvekita
Address: Muvekita 1

Tuzla
Address: Bulevar 15.maja bb

Service Centres:

Posušje
Adress: Fra Grge Martića bb

Zavidovići
Address: Osmog marta bb

Bijeljina
Adress: Račanska 1

Employees
As of 31 December 2012 ProCredit Bank d.d., Sarajevo employed 344 persons (2011: 427 persons).
Directors
The names of the Directors of the Bank serving during the financial year and to the date of this report are as follows:

Director	Edin Hrnjica
Executive Director	Edina Vuk
Executive Director	Maja Mehmedović