INTESA SANPAOLO BANKA

Bosna i Hercegovina

2014 Annual Report

member of INTESA SANPAOLO

GALLERIE D'ITALIA.
THREE MUSEUM CENTRES: A CULTURAL NETWORK FOR THE COUNTRY.

Through the Gallerie d'Italia project, Intesa Sanpaolo intends to share its artistic and architectural heritage with the public at large: 1,000 works of art displayed in historic palazzi in three cities, forging the links in a museum network that is unique of its kind.

In an architectural complex of great value, the Gallerie di Piazza Scala in Milan host a selection of two hundred nineteenth-century works of the Lombard school, along with a display itinerary dedicated to Italian art of the twentieth century.The Gallerie di Palazzo Leoni Montanari in Vicenza display the most important collection of Russian icons in the West, examples of eighteenth-century Veneto art and a collection of ceramics from Attica and Magna Graecia.In Naples, the Gallerie di Palazzo Zevallos Stigliano present the Martyrdom of Saint Ursula, one of Caravaggio's last masterpieces, along with works of southern Italian art ranging from the seventeenth to the early twentieth century.

On the cover

Apulian red-figure volute krater
depicting: *Maidens at the Fountain and Amazonomachy*
Workshop of the Baltimore Painter
330-310 BC
h. max. 73 cm, diam. rim 35.5 cm
Intesa Sanpaolo Collection

This Apulian red-figure volute krater belongs to the Intesa Sanpaolo collection of ceramics from Attica and Magna Graecia. It was made around 330-310 BC in the Workshop of the Baltimore Painter – one of the most important late Apulian workshops which operated between Canosa and Ruvo and was specialised in vases of large proportions.

The main side is decorated with a scene of Amazonomachy – a battle between Greeks and Amazons – while the neck of the krater is adorned with a figurative scene portraying a group of maidens at a fountain. The damsels are posed around a double-spouted fountain gushing forth within a naiskos (small temple). They collect and carry the water using the large recipients designed for this purpose, known as hydriae.

In Ancient Greece, as in all cultures in different parts of the world and in different periods, water has a very strong symbolic significance. It generates life and evokes the concept of birth, and also of rebirth and transformation: it is a dynamic element, representing the flow of becoming. It represents purifying energy and a means of regeneration. Water has always been a vital element, a common good to be shared, a precious and inestimable resource to be defended as the source and guarantee of life and wellbeing.

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MOSTAR – the City was named after the bridge keepers (mostari) on the banks of River Neretva. It is one of the most beautiful cities in Bosnia and Herzegovina. The Old Bridge is located in this City, which is included, together with the Old Town, in the list of protected cultural heritage of UNESCO since 2005.

Report on Supervisory Board

Vojko Čok, Chairman of General Shareholders' Meeting

During the year 2014, the Supervisory Board of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina (hereinafter: "the Bank") held 8 meetings on the following dates: 28.02.; 30.04.; 14.05.; 29.05.; 30.07.; 17.09,; 30.10. and 30.12.2014, which were recorded under sequential numbers from 1 to 8.

The Supervisory Board of the Bank carried out its activities in accordance with the Charter of the Bank and along with significant support by the Management Board and Audit Committee.

At the meetings held, the Bank's Supervisory Board considered, analyzed and discussed various general and internal acts of the Bank, including policies and procedures, prepared internally but also those Group ones from the Parent Company. The Supervisory Board put particular efforts and attention to analyzing and discussing Bank's financial reports and followed up internal and external auditors' activities, during the year.

Among the major issues and topics that the Supervisory Board discussed is the Capital Adequacy ratio, both official and unofficial. Supervisory Board will continue to follow up with this issue, staying committed in respecting the local regulation about the capital adequacy ratio and advising Management Board on further actions.

The Supervisory Board also paid special attention to AML activities and reports, provided by the Compliance and AML Department.

As per local regulatory requirement, Supervisory Board also received and considered all information related to BCM and tests performed as well as to local regulatory requirements referring to reports on written complaints that the Bank received. The Supervisory Board assessed these Bank's activities successful.

During 2014, special attention was paid by the Board to the assessment of the adequacy of the internal control system of the Bank, in general and in specific operational areas, receiving information form the Management Board and Internal Auditing Department on potential and identified weaknesses and the progress in implementation of the necessary remedial actions.
The Supervisory Board of the Bank, through adoption of Operational Reports and Report of independent External Auditors acknowledged work of the Management Board, assessing it as successful and compliant with laws, internal acts, decisions, policies, procedures and programs.

Significant involvement of the Supervisory Board of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina in all Bank's activities contributed to stability and maintenance a good position of the Bank in the market, thus, achieving good financial results.

As far as composition of the Supervisory Board is concerned, on April 02, 2014, the General Shareholders Meeting of the Bank changed composition of the Supervisory Board, due to the expiry of their mandate and appointed the following Supervisory Board of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina (hereinafter "the Bank"): Mr. Vojko Cok, Chairman of the Supervisory Board, Mr. Adriano Arietti, Deputy Chairman of the Supervisory Board, Mr. Marco Fabris, Member of the Supervisory Board, Mr. Arthur Philippe, Member of the Supervisory Board and Ms. Mariarosaria Marseglia, Member of the Supervisory Board.

Pursuant to the Decision on assessment of members of Bank's bodies by Banking Agency of the FBiH, General Shareholders Meeting adopted in 2014 the Policy and Procedures on Assessment of the Members of the Bodies of the Bank (''the Policy") and informed the GSM about legal requirements for the mentioned assessment of suitability. This Policy defined the criteria and the procedures for the assessment of the proposed and selected or appointed members of Supervisory Board of Bank in terms of their good reputation and sufficient experience for carrying out a function of members of a bank's body.

The assessment of the conditions as described in Policy is the task and responsibility of the Nomination Committee which is composed by three members of the Supervisory Board who do not perform any executive function.

In 2014 the Nomination Committee performed the assessment of the members of Supervisory Board, namely the following:

-Mr. Vojko Cok, Chairman
-Mr. Adriano Arietti, Deputy Chairman
-Mr. Arthur Philippe
-Ms. Mariarosaria Marseglia
-Mr. Marco Fabris

Interim Nomination Committee concluded that all the members, individually and collectively as a body, do satisfy the prescribed requirements and are suitable for the position of the member of the Banks body.

Starting from statements presented in this Report, the Supervisory Board proposes to the Bank's General Shareholder's Meeting to adopt the following:

- Decision on Accepting of Financial Statements of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina for the period 01.01. – 31.12.2014 with Report of External and Internal Auditors, Report on Supervisory Board Activities, Report on Audit Committee Activities;

- Decision on adoption of Annual Statement of Accounts for the period 01.01.-31.12.2014 and Distribution of Profit for 2014 to GSM and

- Decision on adoption of Strategic, Financial and Capital Plan together with Risk Strategy and Contingency Plan for Crisis situation of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina.

Chairman of General Shareholders' Meeting
Vojko Čok

Management Board's report on Bank's operations

Almir Krkalić, CEO

In 2014, despite unstable macroeconomic environment, Intesa Sanpaolo Banka d.d. BiH achieved its best yet results. In the year behind us, we continued with the general strategy of prudent assessment and highly focused monitoring of loan portfolio and creditworthiness of existing and potential new loan users. Special attention was paid to continuous improvement of liquidity position as well as its maturity structure. Consequently, deposit/loan ratio was positive for the first time in the last eight years. In selection campaigns launched in 2014, the Bank managed to achieve most of the planned figures in loan portfolio. This business year was marked by extremely aggressive price policies of competitors which lead to significant decrease of interest rate and hence smaller amounts of gross interest income. It is important to emphasize that the Bank managed to uphold its market positions in operations with loans and deposits and that it significantly improved the net operational margin in comparison with previous years. General trend of decreasing interest rates of loans and deposits was compensated by the increase of new clients which enabled the achievement of such net interest margin and increase of loan portfolio. Net fee income was increased by 6% in comparison with the last year thanks to development of new services and tighter relations with clients, which resulted in bigger number and amount of transactions done via Bank. Operational expenses are still being decreased in comparison with 2013, mostly due to successful cost management and efficient procurement process, and business cooperation with the most significant suppliers of services and products.

Efficient collection procedures help the Bank in maintaining low levels of costs for reserves and in maintaining the prudent approach to risk monitoring and careful classification of unsecured receivables. The amount of non-performing loan in total loans is the same as in 2013, while the level of coverage of such loans with reserves is increased which proves the Bank's intention to maintain its stable profit without speculations with credit risks.

The following are the most important indicators proving the Bank's quality:

In 2014, the Bank had net profit in the amount of 19.648 thousand KM which represents 46% increase (2013 year - 13.429 thousand KM). Total assets increased by 8%, amounting to 1.443 million KM (in 2013, 1.333 million KM), with net loans of 1.071 million KM (2013: 1.032 million KM) and clients' deposits in the amount of 1.001 million KM (2013.godine 887 million KM).

Growth of loan portfolio was supported by retail and corporate segments where we witnessed the increase of 5.20% in retail lending and 2.76% increase in corporate lending. Positive operations were confirmed by significant increase of retail deposits (14.10%) and corporate deposits (11.74%). In terms of liquidity, Bank's position is stable and safe even in case of further worsening of macroeconomic conditions.

Bank's capital adequacy is being constantly improved. Bank's shareholders support the growth by directing profit from previous periods to capital for covering potential future losses as well as with intention of retaining the net profit of 2014 in the Bank's capital.

The Bank is keeping its presence in the country through the network of agencies and ATMs, by deepening its relations with merchants and clients for the purpose of expanding POS network. Support to operations with retail and corporate clients is mirrored in the expansion of product catalogue and mostly in lending loans to economy - the amount greater than 1 billion KM of loans was disbursed in 2014.

The Bank was awarded by the clients with the decrease of complaints' number and number of disputes despite ever-increasing regulatory obstacles, and with the stable indicators in BiH market in terms of European Customer Satisfaction Indices.

Almir Krkalić, CEO

Management Board's Report

The Management Board has pleasure in submitting its report for the year ended 31 December 2014.

Review of operations

The result for the year ended 31 December 2014 of the Bank is set out in the income statement on page 6.

Supervisory Board, Management Board and Audit Committee

During the course of 2014 and up to the date of this report, the Supervisory Board comprised:

Supervisory Board	
Vojko Čok	Chairman
Adriano Arietti	Vice-Chairman, from 02.04.2014
Ivan Sramko	Vice-Chairman, until 02.04.2014
Marco Fabris	Member, from 02.04.2014
Arthur Philippe	Member, from 02.04.2014
Mariarosaria Marseglia	Member, from 02.04.2014
Paolo Sarcinelli	Member, until 02.04.2014
Beata Kissne Foldi	Member, until 02.04.2014
Luca Finazzi	Member, until 02.04.2014

During the course of 2014 and up to the date of this report, the Audit Committee comprised:

Audit Committee	
Andrea Nani	Chairman, from 15.05.2014
Giovanni Bergamini	Chairman, until 15.05.2014
Alberto Gandini	Member
Nicoletta Fusetti	Member
Damiano Accattoli	Member
Andrea Tondo	Member, from 15.05.2014
Veronica Vavrova	Member, until 15.05.2014

As of 31 December 2014 the Management Board comprised a director and 2 executive directors, who served during the year and up to the date of this report as follows:

Management Board	
Almir Krkalić	Director
Dario Grassani	Executive Director of Finance
Amir Termiz	Head of Retail Division, from 15.05.2014
Igor Bilandžija	Executive Director of Risk Management, until 28.02.2014

On behalf of the Management Board

Almir Krkalić
Director

Dario Grassani
Executive Director of Finance

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

The Management Board is required to prepare financial statements, which give a true and fair view of the financial position of the Bank and of the results of its operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. Management has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

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

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

The financial statements set out on pages 6 to 76 were authorised by the Management Board on 24 February 2015 for issue to the Supervisory Board, and are signed below to signify this, on behalf of the Bank, by:

For and on behalf of
Management Board

Almir Krkalić
Director

Dario Grassani
Executive Director of Finance

Independent Auditors' Report

We have audited the accompanying financial statements of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina (the "Bank"), which comprise the statement of financial position as at 31 December 2014, and the income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, 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 financial statements give a true and fair view of the financial position of the Bank as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 5.4 to the financial statements. Pursuant to the Decision of the Federal Banking Agency (the "Agency") on minimum standards for capital management of banks and capital protection dated 30 May 2014 (Official Gazette of the Federation of BiH 46/14), the Bank is required to submit to the Agency a written decision from the General Shareholders assembly approving that retained earnings and other reserves will not be paid out and will be used for unconditional, permanent and full coverage of potential future losses in order to be treated as qualifying Tier 1 capital. The approval of this decision is scheduled to take place at the extraordinary General Shareholders Assembly on 3 March 2015. The maintenance of minimum capital requirements in accordance with Agency regulations as at 31 December 2014 is dependent upon obtaining this decision.

KPMG B-H d.o.o. za reviziju
Registered Auditors
Zmaja od Bosne 7-7A/III
71000 Sarajevo
Bosnia and Herzegovina

24. February 2015

D.O.O. ZA REVIZIJU KPMG B-H 1 SARAJEVO

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

Manal Bećirbegović
Excecutive director

Senad Pekmez
FBIH registered auditor
Licence number: 3090044102

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014
(all amounts are expressed in thousands of KM, unless otherwise stated)

	Notes	2014.	2013.
Interest income	8	79.781	79.292
Interest expense	9	(24.666)	(26.610)
Net interest income		**55.115**	**52.682**
Fee and commission income	10	19.932	18.639
Fee and commission expense	11	(5.225)	(4.743)
Net fee and commission income		**14.707**	**13.896**
Net trading income	12	1.683	1.853
Other operating income	13	736	875
Other operating income		**2.419**	**2.728**
Total operating income		**72.241**	**69.306**
Personnel expenses	14	(19.393)	(18.795)
Administrative expenses	15	(17.605)	(18.267)
Depreciation and amortisation		(3.537)	(4.030)
Operating expenses		**(40.535)**	**(41.092)**
Profit before impairment losses and other provisions and income tax		**31.706**	**28.214**
Net impairment losses and other provisions	16	(9.835)	(13.075)
Profit before tax		**21.871**	**15.139**
Income tax expense	17	**(2.223)**	**(1.710)**
Net profit for the year		**19.648**	**13.429**
Basic and diluted earnings per share (KM)	18	**43,88**	**30,00**

The accompanying notes form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014
(all amounts are expressed in thousands of KM, unless otherwise stated)

	2014.	2013.
Profit for the year	**19.648**	**13.429**
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss		
Fair value reserves (available-for-sale financial assets)		
Change in fair value, net of deferred tax	(121)	67
Items that will never be reclassified to profit or loss		
Purchase of AMEX credit card portfolio, net of deferred tax	-	155
Other comprehensive income, net of tax	**121**	**88**
Total comprehensive income for the year	**19.527**	**13.517**

The accompanying notes form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014
(all amounts are expressed in thousands of KM, unless otherwise stated)

	Notes	2014.	2013.
Assets			
Cash and cash equivalents	19	168.787	154.972
Obligatory reserve with the Central Bank	20	81.692	73.945
Placements with other banks	21	55.678	29.572
Financial assets available for sale	22 a)	25.084	2.159
Financial assets at fair value through profit or loss	22 b)	148	273
Loans and receivables from customers	23	1.072.532	1.034.450
Income tax prepayment		1.971	1.764
Other assets	24	9.230	7.525
Property and equipment	25	18.604	20.406
Intangible assets	26	4.493	4.225
Total assets		**1.438.219**	**1.329.291**
Liabilities			
Due to banks and other financial institutions	27	258.507	261.490
Due to customers	28	957.517	864.360
Financial liabilities at fair value through profit or loss	22 b)	-	34
Subordinated debt	29	603	764
Other liabilities	30	11.287	11.507
Provisions for liabilities and charges	31	3.792	4.145
Deferred tax liability	32	13	18
Total liabilities		**1.231.719**	**1.142.318**
Equity			
Share capital	33	44.782	44.782
Share premium		57.415	57.415
Regulatory reserves for credit losses		18.286	18.286
Other reserves and fair value reserves		6.197	6.318
Retained earnings		79.820	60.172
Total equity		**206.500**	**186.973**
Total liabilities and equity		**1.438.219**	**1.329.291**

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014
(all amounts are expressed in thousands of KM, unless otherwise stated)

	Issued share capital	Share premium	Regulatory reserves for credit losses	Other reserves	Fair value reserves	Retained earnings	Total
Balance as at 1 January 2014	44.782	57.415	18.286	6.305	13	60.172	186.973
Net profit for the year	-	-	-	-	-	19.648	19.648
Other comprehensive income							
Net loss from change in fair value of financial assets available for sale	-	-	-	-	(134)	-	(134)
Deferred tax	-	-	-	-	13	-	13
Total other comprehensive income	-	-	-	-	(121)	-	(121)
Total comprehensive income	-	-	-	-	(121)	19.648	19.527
Balance as at 31 December 2014	44.782	57.415	18.286	6.305	(108)	79.820	206.500

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013
(all amounts are expressed in thousands of KM, unless otherwise stated)

	Issued share capital	Share premium	Regulatory reserves for credit losses	Other reserves	Fair value reserves	Retained earnings	Total
Balance as at 1 January 2013	44.782	57.415	18.286	6.150	80	46.743	173.456
Net profit for the year	-	-	-	-	-	13.429	13.429
Other comprehensive income							
Net loss from change in fair value of financial assets available for sale	-	-	-	-	(74)	-	(74)
Purchase of AMEX credit card portfolio	-	-	-	172	-	-	172
Deferred tax	-	-	-	(17)	7	-	(10)
Total other comprehensive income	-	-	-	155	(67)	-	88
Total comprehensive income	-	-	-	155	(67)	13.429	13.517
Balance as at 31 December 2013	44.782	57.415	18.286	6.305	13	60.172	186.973

On 1 January 2013 the Bank purchased the American Express credit card loan portfolio of Intesa Sanpaolo Card BH d.o.o. Sarajevo, a related party. Since the two entities are ultimately under the control of the same majority shareholder, Intesa Sanpaolo SpA Italy, the transaction was accounted for in accordance with the exception described in IFRS 3 for transactions between entities under common control. Accordingly, the difference between the sale/purchase price of the portfolio and its net book value in the books of the seller has been recorded as a gain within equity.

STATEMENT OF CASH FLOWS
(all amounts are expressed in thousands of KM, unless otherwise stated)

	Notes	31. December 2014.	31. December 2013.
Profit for the period			
Adjustments for:		19.648	13.429
- depreciation and amortisation		3.537	4.030
- net impairment losses and provisions		9.835	13.075
- net change in provisions for liabilities and charges		471	137
- net interest income		(55.115)	(52.682)
- net change in fair value of financial assets and liabilities at fair value through profit or loss		(101)	(30)
- net gain from disposal of property and equipment		(43)	(57)
- tax expense		2.223	1.710
		(19.545)	(20.388)
Changes in:			
- placements with other banks		(26.114)	10.185
- loans and receivables from customers		(44.096)	(1.411)
- other assets		(2.233)	2.363
- obligatory reserve with the Central Bank		(7.747)	(3.884)
- financial assets and liabilities at fair value through profit or loss		91	6
- due to banks		(3.872)	(70.040)
- due to customers		90.745	53.098
- other liabilities		(225)	2.900
- provisions for liabilities and charges		(130)	(130)
		(13.126)	(27.301)
Income tax paid		(2.430)	(1.791)
Interest received		76.270	75.873
Interest paid		(21.365)	(22.959)
Net cash from/(used) in operating activities		39.349	23.822
Cash flows from investing activities			
Acquisition of property and equipment		(1.950)	(3.267)
Proceeds from the sale of property and equipment		819	117
Acquisition of intangible assets		(1.297)	(2.472)
Proceeds from financial assets available for sale		(22.945)	155
Net cash (used in)/from investing activities		(25.373)	(5.467)
Cash flows from financing activities			
Repayment of subordinated debt		(161)	(159)
Reserves from portfolio transfer		-	155
Net cash flow used in financing activities		(161)	(4)
Net increase/(decrease) in cash and cash equivalents		13.815	18.351
Cash and cash equivalents at the beginning of the year	19	154.972	136.621
Cash and cash equivalents at the end of the year	19	168.787	154.972

The accompanying notes form an integral part of these financial statements.

1. GENERAL

INCORPORATION AND REGISTERED ACTIVITIES

Intesa Sanpaolo Banka d.d. Bosna i Hercegovina (the "Bank") was registered in the Cantonal Court in Sarajevo on 20 October 2000. Its registered address in Sarajevo is Obala Kulina Bana 9a

THE BANK'S MAIN OPERATIONS ARE AS FOLLOWS:

1. Accepting deposits from the public,
2. Granting short-term and long-term loans and guarantees to corporate customers, private individuals, local municipalities and other credit institutions,
3. Money market activities,
4. Performing local and international payments,
5. Foreign currency exchange and other banking-related activities,
6. Providing banking services through an extensive branch network in Bosnia and Herzegovina.

2. BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

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

These financial statements were authorised by the Management Board on 24 February 2015 for submission to the Supervisory Board.

BASIS OF MEASUREMENT

The financial statements have been prepared on the historical or amortised cost basis except for financial assets available for sale and financial assets and liabilities at fair value through profit or loss.

FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in thousands of convertible mark ('000 KM) which is the functional currency of the Bank.

USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Results actually recorded upon settlement of transactions which were initially subject to estimates may eventually 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 if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Information on areas with significant uncertainty in the estimates and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in these financial statements are disclosed in Note 4.

VRELO BOSNE – is located in central Bosnia and Herzegovina. It is the spring of River Bosna, and one of the most familiar landmarks of BiH. It is placed in the periphery of Sarajevo, near Ilidža.

3. SUMMARY OF ACCOUNTING POLICIES

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

FOREIGN CURRENCY TRANSACTIONS

Transactions in currencies other than Convertible Marks ("KM") are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities are translated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Profits and losses arising on translation are included in the income statement for the period.

The Bank values its assets and liabilities at the middle rate of the Central Bank of Bosnia and Herzegovina valid at the reporting date. The principal rates of exchange set forth by the Central Bank and used in the preparation of the Bank's statement of financial position at the reporting dates were as follows:

31. December 2013.	EUR 1= KM 1,95583	USD 1 = KM 1,419016
31. December 2014.	EUR 1= KM 1,95583	USD 1 = KM 1,608413

INTEREST INCOME AND EXPENSE

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

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

Interest income and expense recognised in the income statement include interest on financial assets and financial liabilities that are measured at amortised cost calculated using the effective interest rate method.

FEE AND COMMISSION INCOME AND EXPENSES

Fee and commission income and expenses that are integral part of the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fee and commission income and expenses, reported as such, comprise mainly fees related to credit card transactions, the issuance of guarantees and letters of credit, domestic and foreign payment transactions and other services and are recognised in the income statement upon performance of the relevant service.

NET TRADING INCOME

Net trading income comprises net gains and losses from foreign exchange trading, net gains and losses on financial instruments at fair value through profit or loss, and net gains and losses from the translation of monetary assets and liabilities denominated in foreign currency at the reporting date.

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

DIVIDEND INCOME

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

LEASE PAYMENTS

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

INCOME TAX EXPENSES

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

The amount of deferred tax is calculated using the balance sheet liability method whilst taking into account the temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and amounts used for income tax purposes. Deferred tax assets and liabilities are recognised using the tax rates that are expected to apply on taxable income in the period in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the reporting date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects at the reporting date to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the statement of financial position. Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable future profits will be available against which the deferred tax assets can be utilised. At each reporting date the Bank reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets for indications of potential impairment.

FINANCIAL INSTRUMENTS

RECOGNITION

Loans and receivables and other financial liabilities are recognised when advanced to borrowers or received from lenders (settlement date).

The Bank recognises financial assets available for sale and financial assets and liabilities at fair value through profit or loss on the trade date which is the date when the Bank commits to purchase or sell the instruments.

CLASSIFICATION

The Bank classifies its financial instruments in the following categories: loans and receivables, financial assets available for sale, financial assets and financial liabilities at fair value through profit or loss and other financial liabilities. The classification depends on the purpose for which the financial assets and liabilities were acquired. Management determines the classification of financial assets and liabilities upon initial recognition and re-evaluates this classification at each reporting date.

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market. Loans and receivables arise when the Bank provides money to a debtor with no intention of trading with these receivable and include placements with and loans to other banks, loans and receivables from customers and balances with the Central Bank.

b) Financial assets available for sale

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

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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

Financial assets and financial liabilities at fair value through profit or loss have two sub-categories: financial instruments held for trading (including derivatives) and those designated by management as at fair value through profit or loss at inception. A financial instrument is classified in this category only if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term for the purpose of short-term profit taking or designated as such by management at initial recognition.

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

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

Financial assets and financial liabilities at fair value through profit or loss include derivative financial instruments classified as financial instruments held for trading and equity instruments designated by management at fair value through profit or loss. Management has designated equity instruments at fair value through profit or loss because the designation eliminates or significantly reduces an accounting mismatch related to share-based payments, which would otherwise arise.

d) Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not at fair value through profit or loss and include amounts due to customers, due to banks and other financial institutions, and subordinated debt.

INITIAL AND SUBSEQUENT MEASUREMENT

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

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

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

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

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

RECOGNITION OF GAINS AND LOSSES ON SUBSEQUENT MEASUREMENT OF FINANCIAL INSTRUMENTS

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

Foreign exchange gains and losses on available-for-sale equity instruments are part of the fair value of these instruments and are recognised in other comprehensive income. Dividend income on available-for-sale equity securities is recognised in profit or loss when the right to receive payment has been established.

Gains and losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss are recognised in the income statement.

DERECOGNITION

The Bank derecognises financial assets (in full or partially) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights on those financial assets. This occurs when the Bank transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realised, surrendered or have expired.

The Bank derecognises financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Bank will cease recognising that liability and will instantaneously recognise a new financial liability with new terms and conditions.

FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis (Level 1 of the fair value hierarchy).

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimize the use of unobservable inputs (Level 2 and Level 3 of the fair value hierarchy). The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at the bid price and liabilities and short positions at the ask price.

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustments of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand.

Spot exchange transactions are always considered contributed instruments. Forward currency contracts are not contributed and are treated as financial derivatives pursuant to IAS 39.

The Bank recognises transfers between levels of the fair value hierarchy as of the reporting period during which the change occurred.

IDENTIFICATION AND MEASUREMENT OF IMPAIRMENT OF FINANCIAL ASSETS

(a) Financial assets carried at amortised cost

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has (or have) an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified for the individual financial assets in the group.

For financial assets carried at amortised cost, the Bank first assesses whether objective evidence of impairment exists individually, for financial assets that are individually significant, or collectively, for financial assets that are not individually significant. Those individually significant assets which are not identified as impaired are subsequently included in the basis for collective impairment assessment. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted at the original effective interest rate of financial assets valid at the time the asset become impaired. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

For individually significant loans, the need for, and amount of impairment allowance is determined based on an assessment which includes the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, the availability of working capital and other financial support, the realisable value of collateral, and the timing of the expected cash flows.

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(a) Financial assets carried at amortised cost (continued)

Allowances are assessed collectively for losses on loans to customers that are not individually significant and for individually significant loans where there is not yet objective evidence of individual impairment. For the purpose of collective evaluation of impairment the Bank uses statistical models and historical data on the probability of occurrences that cause impairment, the time required to recover and the total loss incurred, adjusted for management's judgement as to whether the current economic and credit conditions are such that it is likely that the actual losses with be higher or lower of those calculated by historical modelling. The Bank regularly reviews the loss rate and the expected rate of recovery at each reporting date, to ensure accurate reporting.

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

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

The Bank also calculates provisions in accordance with the relevant regulations of the Banking Agency of the Federation of Bosnia and Herzegovina ("the Agency" or "FBA"). In accordance with these regulations, the relevant placements are classified into appropriate risk groups, depending on the past due days, the financial position of the borrower and collateral; and are provided for at prescribed rates. A general provision is also calculated in accordance with these regulations at a rate of 2% on exposure not specifically impaired.

The provisions calculated on the basis of the preceding paragraph ("the FBA provisions") are not recognized in those financial statements of the Bank. However, if the FBA provisions are greater than the impairment allowance calculated in accordance with IFRS, the difference is presented as an appropriation within equity.

(b) Financial assets available for sale

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

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

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

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(c) Financial assets carried at cost

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

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

SPECIFIC FINANCIAL INSTRUMENTS

(a) Derivative financial instruments

The Bank uses derivative financial instruments to hedge economically its exposure to foreign exchange risks arising from operating, financing and investing activities. The Bank does not hold or issue derivative financial instruments for speculative trading purposes. All derivatives are classified as financial instruments at fair value through profit or loss. Hedge accounting is not applied.

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

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

(b) Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash, balances with the Central Bank and current accounts with other banks.

Cash and cash equivalents exclude the compulsory minimum reserve with the Central Bank as these funds are not available for the Bank's day-to-day operations. The compulsory minimum reserve with the Central Bank is a required reserve to be held by all commercial banks licensed in Bosnia and Herzegovina.

(c) Placements with banks and the obligatory reserve with the Central Bank

Placements with banks and the obligatory reserve with the Central Bank are classified as loans and receivables and are carried at amortised cost less impairment losses.

(d) Loans and receivables from customers

Loans to customers are presented at amortised cost net of impairment allowances to reflect the estimated recoverable amounts.

(e) Equity securities

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

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(f) Debt securities

Debt securities are classified as available-for-sale financial assets and carried at fair value.

(g) Borrowings and subordinated debt

Interest-bearing borrowings and subordinated debt are classified as other financial liabilities and are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, these are stated at amortized cost with any difference between proceeds (net of transaction costs) and redemption value being recognised in the income statement over the period of the borrowings using the effective interest rate method.

(h) Current accounts and deposits from banks and customers

Current accounts and deposits are classified as other liabilities and initially measured at fair value plus transaction costs and subsequently stated at their amortised cost using the effective interest method.

PROPERTY AND EQUIPMENT

Property and equipment are stated at historical cost less accumulated depreciation and impairment losses. The cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent cost is included in net book value or is accounted for as separate assets only if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of day-to-day repairs and maintenance are recognised in the income statement as incurred.

Depreciation is provided on all property and equipment except for land and assets in the course of construction on a straight-line basis at prescribed rates designed to write off the cost over the estimated useful lives of the assets. The depreciation rates used by the Bank are as follows:

Computers	20%
Furniture and equipment	10% - 20%
Business premises	1,3% - 3%
Leasehold improvements	20%

Depreciation method and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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

INTANGIBLE ASSETS

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

Amortisation is provided on all intangible assets except assets in the course of construction on a straight line basis at prescribed rates designed to write off the cost over the estimated useful lives of the assets. The amortisation rates used by the Bank are as follows:

Intangible assets - licenses	10% - 33,33%
Intangible assets - software	20%

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of other assets is the greater of their value in use and fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

EMPLOYEE BENEFITS

Short-term benefits

On behalf of its employees, the Bank pays pension and health insurance which is calculated on the gross salary paid as well as tax on salaries which are calculated on the net salary paid. The Bank pays the above contributions into the state pension and health funds according to statutory rates during the course of the year. In addition, meal allowances, transport allowances and vacation bonuses are paid in accordance with local legislation. These expenses are recorded in the income statement in the period in which the salary expense is incurred.

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

Long-term employee benefits: retirement severance payments and early retirement bonuses

The Bank pays to its employees' retirement severance benefits upon retirement in an amount representing three times the average salary of the respective employee in the period of the last three months.

The obligation and costs of these benefits are determined by using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the estimated interest rate on government bonds.

Share-based payments

Employees of the Bank receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments issued by the ultimate parent company. The Bank accounts for share-based payments as a cash-settled transaction.

The fair value of the amount payable to employees in respect of the ultimate parent company shares to be given to the employees is recognised as an expense with a corresponding increase in liabilities over the period in which the employees unconditionally become entitled to payments. The liability is remeasured at each reporting date and at the settlement date. Any changes in the fair value of the liability are recognised as a personnel expense in the income statement.

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

PROVISIONS FOR LIABILITIES AND CHARGES

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events for which 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. Management determines the sufficiency of provisions on the basis of insight into specific items; current economic circumstances risk characteristics of certain transaction categories, as well as other relevant factors.

Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

SHARE CAPITAL

Issued share capital

Issued share capital comprises ordinary and preference shares and is stated in KM at nominal value.

Regulatory reserve for credit losses

The regulatory reserve for credit losses represents the surplus of impairment allowances calculated in accordance with regulations as prescribed by the Agency over impairment allowances recognised in accordance with IFRS. The reserve is presented directly within equity (as a non-distributable reserve) and until 2012 any increase of the surplus was covered by transfers from retained earnings, after approval by shareholders.

Prior to 2012, the need for transfers from retained earnings to an earmarked reserve within equity (regulatory reserve for credit losses) was calculated for the whole credit-risk portfolio on a net basis, thereby taking into account both instances where application of Agency regulations would have resulted in a higher provision and instances where the application of Agency regulations would have resulted in a lower provision. However, from 2012, banks are required to calculate the requirement for regulatory reserves for credit losses taking into account only instances where higher provisions would have resulted from the application of the Agency rules. Retroactive application of this change in Agency rules is not required.

Based on the Decision of Minimum Standards for Capital Management and Asset Classification issued by the Agency in February 2013 any increase of the surplus of regulatory provisions no longer needs to be presented as a reserve movement within equity but will be exclusively computed as a deduction of regulatory capital for the purpose of capital adequacy calculations. Accordingly, the balance of the regulatory reserve presented in the financial statements as of 31 December 2012 has been carried forward unchanged to 31 December 2014.

Retained earnings

Retained earnings represent the accumulation of net profits after appropriations to owners and other transfers, such as transfers to regulatory reserves as described above.

Fair value reserve

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

Other reserves

Other reserves mainly relate to accumulated appropriations from retained earnings in accordance with the shareholder's decisions.

Dividends

Dividends on ordinary shares and preference shares are recognised as a liability until payment to beneficiaries in the period in which they are approved by the Bank's shareholders.

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

OFF-BALANCE SHEET COMMITMENTS AND CONTINGENT LIABILITIES

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

MANAGED FUNDS FOR AND ON BEHALF OF THIRD PARTIES

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

SEGMENT REPORTING

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

The Bank has identified 3 primary business segments: Retail, Corporate and Treasury. The primary segmental information is based on the Bank's internal reporting structure by business segment. Geographical concentration is not presented as the Bank's operations are concentrated in Bosnia and Herzegovina.

NEW STANDARDS AND INTERPRETATIONS

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2014; however the Bank has not applied the following new or amended standards in preparing these financial statements.

- IFRS 9 (Financial instruments) published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance of recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reposting periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank is assessing the potential impact in its financial statements resulting from the application of IFRS 9. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statement. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.

- IFRS 15 (Revenue from Contracts with Customers) establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 15.
The following new or amended standards are not expected to have a significant impact of the Bank's financial statements.

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)
- Annual Improvements to IFRSs 2010-2012 Cycle
- Annual Improvements to IFRSs 2011-2013 Cycle
- IFRS 14 Regulatory Deferral Accounts
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

- Agriculture: Nearer Plants (Amendments to IAS 16 and IAS 41).
- Equity Method in Separate Financial Statements (Amendments to IAS 27).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

- Annual Improvements to IFRSs 2012-2014 Cycle – various standards.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Bank makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated and are based on historical experience and other factors such as the expected flow of future events that can be reasonably assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Bank's credit risk portfolio represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(a) Impairment losses on loans and receivables

The Bank monitors the creditworthiness of its customers on an ongoing basis. The need for impairment of the Bank's on and off-balance sheet exposure to credit risk is assessed on a monthly basis.

Impairment losses are made mainly against the carrying value of loans to corporate and retail customers (as disclosed in Note 23) and as provisions for liabilities and charges arising from off-balance exposure to customers, mainly in the form of guarantees and letters of credit (as disclosed in Note 35) and other assets (Note 24).

Impairment losses are also considered for credit risk exposures to banks and for other assets not carried at fair value, where the primary risk of impairment is not credit risk.

The Bank first assesses whether objective evidence of impairment exists individually for assets that are individually significant (corporate exposures above KM 50 thousand and retail exposures above KM 150 thousand) and collectively for assets that are not individually significant. However, assets assessed individually as unimpaired are then included in groups of assets with similar credit risk characteristics and then assessed collectively for impairment.

The Bank estimates impairment losses in cases where it judges that the observable data indicates the likelihood of a measurable decrease in the estimated future cash flows of the asset or portfolio of assets. Such evidence includes delinquency in payments or other indications of financial difficulty of borrowers and adverse changes in the economic conditions in which borrowers operate or in the value or enforceability of security, where these changes can be correlated with defaults.

(all amounts are expressed in thousands of KM, unless otherwise stated)

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(a) Impairment losses on loans and receivables (continued)

Summary of impairment allowances:	31. December 2014.	31. December 2013.
Impairment allowance for balance sheet exposures, including IBNR (Note 23)	88.529	85.215
Provisions for off-balance-sheet, including IBNR (Note 31)	1.435	2.129
	89.964	87.344

As at 31 December 2014 and 31 December 2013, the gross value of impaired loans and receivables (non-performing loans – NPL) and the rate of impairment loss recognised were as follows:

	31. December 2014			31. December 2013.		
	Corporate	Retail	Total	Corporate	Retail	Total
Gross exposure	89.111	29.784	118.895	87.041	29.652	116.693
Impairment allowance	(58.243)	(20.358)	(78.601)	(52.433)	(21.706)	(74.139)
Impairment rate	65%	68%	66%	60%	73%	64%

An increase in the impairment rate of 1 percentage point of the gross non-performing exposure presented above as at 31 December 2014, would lead to the recognition of an additional impairment loss of KM 1,189 thousand (2013: KM 1,167 thousand).

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

The amount of IBNR as at 31 December 2014 amounted to KM 9,928 thousand for balance sheet exposure and KM 1,205 thousand for off-balance-sheet exposure. (2013: KM 11,076 thousand for balance sheet exposure and KM 1,686 thousand for off-balance-sheet exposure). The total IBNR provision amounted to 0.88% (2013: 1.07%) of the relevant on and off-balance-sheet exposure.

b) Taxation

The Bank provides for tax liabilities in accordance with the tax laws of the Federation of Bosnia and Herzegovina. Tax returns are subject to the approval of the tax authorities which are entitled to carry out subsequent inspections of taxpayers' records.

c) Regulatory requirements

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

In addition to impairment allowances calculated and recognised in accordance with IFRS, the Bank also calculates impairment losses in accordance with the Agency regulations for capital adequacy calculation purposes.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

c) Regulatory requirements (continued)

The following table summarises impairment allowances calculated in accordance with the Agency regulations. Regulatory provisions as of 31 December 2014 are calculated in accordance with the new methodology, as explained in Note 3(n):

Summary of impairment allowances	31. December 2014.	31. December 2013.
Provisions for balance-sheet exposure (Agency)	119.785	115.066
Provisions for off-balance–sheet exposure (Agency)	4.758	4.760
	124.543	119.826
Impairment allowances under IFRS	90.675	87.971
Excess at the year end	33.868	31.855

Prior to 2012, any increase in allowance in accordance with the Agency regulations over amounts recognised under IFRS were required to be transferred to regulatory reserves from profit or retained earnings, upon the decision of the General Assembly. However, as explained in Note 3(n), based on the Decision on Minimum Standards of Capital Management and Asset Classification issued by the Agency in February 2013 any further shortfall in regulatory provisions after 31 December 2012 will be adjusted as a deduction of regulatory capital in the capital adequacy calculation without any transfer of this shortfall from retained earnings to regulatory reserves for credit losses within equity.

As presented in the above table, total Agency provisions exceeded provisions recognised under IFRS by KM 33,868 thousand as at 31 December 2014 (31 December 2013: KM 31,855 thousand). Out of this amount, KM 18,286 thousand has been recognised as a regulatory reserve for credit losses within equity as at 31 December 2014 (31 December 2013: KM 18,286 thousand). The remaining amount of KM 15,582 thousand, which represents the current year shortfall, in line with the new Agency regulation, as explained above, will not be transferred to the regulatory reserves for credit losses, but will be recorded as a reduction of regulatory capital.

d) Litigation and claims

The Bank performs an individual assessment of all court cases and creates provisions in accordance with the assessment. The assessment of risks and proposal for provisions for legal cases is performed by the Legal Affairs Department and Finance Division, and a decision on the creation of provisions is made by the Bank's management.

As stated in Note 31, the Bank provided KM 1,717 thousand (2013: KM 1,538 thousand), which management estimates as sufficient. Since the estimate is made considering the specifics of each individual case, it is not practicable for management to evaluate the financial impact of changes to the assumptions based on which provisions are quantified as at the reporting date.

MAGLIĆ – Dinaric mountain at the border of Bosnia and Herzegovina and Montenegro around 20 km south-west from city of Foča. Magić is the mountain with the highest peak in BiH. It is surrounded by River Sutjeska to the west, Mountain Volujak to the southwest, rivers Drina and Piva to the northeast and Mountain Bioč to the southeast. It is composed of Permian rocks, Mesozoic limestone, diabase and mafic, while glacial traces are also visible. It is overgrown with beech and coniferous forest.

5. FINANCIAL RISK MANAGEMENT

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

The Bank has established an integrated system of risk management by introducing a set of policies and procedures for analysis, evaluation, acceptance and risk management. Taking risk is core to the financial services 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 Risk Management Division whose main purpose is to support financial operations, coordinate access to domestic and international financial markets, and oversee and manage financial risk through internal risk reports including analysis by size and level of the risk.

5.1 CREDIT RISK

5.1.1 RISK LIMIT CONTROL AND MITIGATION POLICIES

The Bank takes on exposure to credit risk which is the risk that the counterparty will be unable to pay amounts in full when due. 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 group of borrowers, and to industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest payment and capital repayment obligations and by changing the lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

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

According to the Bank's policy, decision-making on exposure to credit risk is centralised and concentrated on the Credit Committee. Decisions of the Credit Committees are made upon consideration of proposals provided by the Risk Management Department. The terms for approval of each corporate loan are determined individually depending on client type, the loan's purpose, estimated creditworthiness and current market situation. Conditions for collateral are also determined according to client creditworthiness analysis, type of credit risk exposure, term of the placement as well as the placement amount.

Off-balance-sheet credit instruments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letter of credits carry the same risk as loans and are secured with similar collateral as are loans.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 CREDIT RISK (CONTINUED)

5.1.2 MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD OR OTHER CREDIT ENHANCEMENT

	Maximum exposure	
	31. December 2014.	31. December 2013.
Included in the statement of financial position		
Current accounts with Central Bank and other banks	136.789	128.116
Obligatory reserve with the Central Bank	81.692	73.945
Placements with other banks	55.678	29.572
Debt securities available for sale	24.498	1.568
Loans and receivables from customers	1.072.532	1.034.450
Income tax prepayment	1.971	1.764
Other assets excluding repossessed assets	8.960	6.579
Off-balance-sheet exposure		
Undrawn lending commitments	148.179	128.822
Financial guarantees and letters of credit	73.469	62.845
Total	1.603.768	1.467.661

For items included in the statement of financial position, the exposures set out above are based on net carrying amounts as reported in the statement of financial position. Off-balance-sheet exposure is also stated net of provisions as reported in the statement of financial position.

The above table represents the maximum credit risk exposure of the Bank as at 31 December 2014 and 31 December 2013, without taking into account any collateral held or other credit enhancements attached.

The Bank holds collateral against loans and receivables to customers in the form of mortgages and other securities over assets and guarantees. Collateral value estimates are based on assessments by chartered court surveyors at the time of loan approval, reduced by a haircut at certain fixed percentages. In order to verify the adequacy of the impairment allowance on a continuous basis, collateral reassessments are regularly performed and back-tested in accordance with the principles and rules of the collateral management system, taking into proper consideration the volatility of collateral value and the time needed for its realisation, influenced by the local and global economic trend. Collateral is not held for loans and placements to banks.

(all amounts are expressed in thousands of KM, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 CREDIT RISK (CONTINUED)

5.1.2 MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD OR OTHER CREDIT ENHANCEMENT (CONTINUED)

During the year the Bank obtains financial and non-financial assets by taking possession of collaterals it holds as security or calling on other credit enhancements, in case of failure by the debtors to repay their due amounts. Such process of foreclosure involves mainly real estate, equipment and vehicles. Repossessed items are presented as such in the statement of financial position once they meet the criteria for recognition according to IFRS and local law. The policy of the Bank is to sell repossessed assets; during the period of possession and pending their final sale to third parties, the assets can be temporarily used if they are functional to the Bank's standard operations, or leased operationally to third parties.

The gross amount of repossessed assets is presented in the following table:

	31 December 2014.	31 December 2013.
Other assets (Note 24)	715	946
Property and equipment (Note 25)	4.262	4.135
	4.977	5.081

5.1.3 CREDIT RISK MANAGEMENT AND POLICIES FOR IMPAIRMENT AND PROVISIONS

The Bank accounts for counterparty risks arising from the loan portfolio by making allowances for impaired loans. At each reporting date, the Bank checks the existence of objective evidence of impairment of financial assets, as previously explained in Note 3.

Loans and receivables with renegotiated terms

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

The Bank renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default (rescheduling). Rescheduling is mainly performed in response to initial deterioration of the clients' financial position or for the prevention of further deterioration of the clients' financial position. The revised terms usually include extending the maturity, changing the timing of interest payments and when possible obtaining additional instruments of collateral. Following the restructuring the loans remain graded as restructured until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash-flows and there are no other indicators of impairment.

For the purpose of credit monitoring and the management of credit risk, the Bank divides its credit portfolio into the following groups:

- Performing loans – loans that are neither past due nor impaired (including rescheduled loans)
- Past due but unimpaired loans
- Non-performing loans for which impairment has been recognised.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 CREDIT RISK (CONTINUED)

5.1.3 CREDIT RISK MANAGEMENT AND POLICIES FOR IMPAIRMENT AND PROVISIONS (CONTINUED)

The analysis of the loan portfolio according to the above-stated categories is presented below:

	31. December 2014.	31. December 2013.
Corporate		
Loans to customers that are neither past due nor impaired	537.303	525.127
Past due but not impaired loans	30.848	27.749
Non-performing loans (impaired loans)	89.111	87.041
Gross exposure	**657.262**	**639.917**
Less: impairment allowance	(64.742)	(60.477)
Net exposure	**592.520**	**579.440**
Retail		
Loans to customers that are neither past due nor impaired	444.237	413.763
Past due but not impaired loans	29.778	36.333
Non-performing loans (impaired loans)	29.784	29.652
Gross exposure	503.799	479.748
Less: impairment allowance	(23.787)	(24.738)
Net exposure	**480.012**	**455.010**
Total gross exposure	1.161.061	1.119.665
Portfolio impairment allowance (IBNR)	9.928	11.076
Specific impairment allowances	78.601	74.139
Net exposure	**1.072.532**	**1.034.450**

(all amounts are expressed in thousands of KM, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 CREDIT RISK (CONTINUED)

5.1.3 CREDIT RISK MANAGEMENT AND POLICIES FOR IMPAIRMENT AND PROVISIONS (CONTINUED)

a) Loans to customers that are neither past due nor impaired

The quality of the portfolio of loans to customers that are neither past due nor impaired can be assessed through the internal standard monitoring system. Loans to customers are regularly monitored and systematically reviewed in order to identify any irregularities or warning signals. These loans are subject to constant monitoring with the aim of taking timely action based on improvement/deterioration of the client's risk profile.

An overview of gross exposure of loans to customers that are neither past due nor impaired according to the type of loan is as follows:

	Retail loans				Corporate loans		
	Consumer loans	Housing loans	Credit card loans and overdrafts	Total	Large	Other	Total
31 December 2014							
Standard monitoring	268.131	125.845	50.261	444.237	162.540	374.763	537.303
31. December 2013							
Standard monitoring	235.481	128.873	49.409	413.763	169.701	355.426	525.127

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 CREDIT RISK (CONTINUED)

5.1.3 CREDIT RISK MANAGEMENT AND POLICIES FOR IMPAIRMENT AND PROVISIONS (CONTINUED)

b) Past due but not impaired loans

Loans to and receivables from customers less than 90 days overdue are not considered as impaired, unless other information is available to indicate the contrary. The gross amount of loans to and receivables from customers that were past due but not impaired was as follows:

	Gross amount	Until 30 days	31 – 60 days	Past due days 61 – 90 days	Over 90 days
31 December 2014					
Corporate loans					
- Large	4.328	4.328	-	-	-
- Other	26.520	25.054	1.427	39	-
	30.848	29.382	1.427	39	-
Retail loans					
- Consumer	15.037	11.802	2.608	539	88
- Housing	12.224	9.521	1.921	782	-
- Credit Cards and overdrafts	2.517	93	2.049	358	17
	29.778	21.416	6.578	1.679	105
Total	60.626	50.798	8.005	1.718	105

	Gross amount	Until 30 days	31 – 60 days	Past due days 61 – 90 days	Over 90 days
31 December 2013					
Corporate loans					
- Large	1.249	1.249	-	-	-
- Other	26.500	25.382	275	843	-
	27.749	26.631	275	843	-
Retail loans					
- Consumer	18.342	15.327	2.595	420	-
- Housing	14.572	11.887	2.214	471	-
- Credit Cards and overdrafts	3.419	198	2.753	461	7
	36.333	27.412	7.562	1.352	7
Total	64.082	54.043	7.837	2.195	7

(all amounts are expressed in thousands of KM, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 CREDIT RISK (CONTINUED)

5.1.3 CREDIT RISK MANAGEMENT AND POLICIES FOR IMPAIRMENT AND PROVISIONS (CONTINUED)

c) Non-performing loans

The breakdown of the gross and net amount of the loans to customers that are impaired along with the estimated value of related collateral held by the Bank as security (presented up to the maximum amount of the related exposure), are as follows:

	Retail loans				Corporate loans		
	Consumer loans	Housing loans	Credit card loans and overdrafts	Total	Large	Other	Total
31. December 2014.							
Gross exposure	17.970	8.175	3.639	29.784	12.943	76.168	89.111
Impairment	(15.311)	(2.296)	(2.751)	(20.358)	(7.489)	(50.754)	(58.243)
Net	2.659	5.879	888	9.426	5.454	25.414	30.868
Rate of impairment	85%	28%	76%	68%	58%	67%	65%
Estimated value of collateral							
Cash deposit	11	10	-	21	-	-	-
Mortgage	442	7.777	-	8.219	7.474	52.634	60.108
Total	453	7.787	-	8.240	7.474	52.634	60.108

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 CREDIT RISK (CONTINUED)

5.1.3 CREDIT RISK MANAGEMENT AND POLICIES FOR IMPAIRMENT AND PROVISIONS (CONTINUED)

c) Non-performing loans (continued)

	Retail loans				Corporate loans		
	Consumer loans	Housing loans	Credit card loans and overdrafts	Total	Large	Other	Total
31. December 2013.							
Gross exposure	18.043	7.641	3.968	29.652	12.825	74.216	87.041
Impairment	(16.966)	(1,273)	(3.467)	(21.706)	(6.703)	(45.730)	(52.433)
Net	**1.077**	**6.368**	**501**	**7.946**	**6.122**	**28.486**	**34.608**
Rate of impairment	94%	17%	87%	73%	52%	62%	60%
Estimated value of collateral							
Cash deposit	15	3	-	18	-	-	-
Mortgage	442	7.448	11	7.901	10.752	57.404	68.156
Total	457	7.451	11	7.919	10.752	57.404	68.156

(all amounts are expressed in thousands of KM, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 CREDIT RISK (CONTINUED)

5.1.4 CONCENTRATION OF CREDIT RISK PER GEOGRAPHIC LOCATION

Geographic risk is highly concentrated on the state of Bosnia and Herzegovina. Geographic risk concentrations on net amounts of balance sheet exposure are as follows:

	Bosnia and Herzegovina	OECD countries	Non-OECD countries	Total
As at 31 December 2014				
Current accounts with the Central Bank and other banks	136.789	-	-	136.789
Obligatory reserves with the Central Bank	81.692	-	-	81.692
Placements with other banks	-	55.678	-	55.678
Debt securities available for sale	24.498	-	-	24.498
Loans and receivables from customers	1.072.532	-	-	1.072.532
Income tax prepayment	1.971	-	-	1.971
Other assets	7.462	1.498	-	8.960
As at 31 December 2014	1.324.944	57.176	-	1.328.120
As at 31 December 2013				
Current accounts with the Central Bank and other banks	128.116	-	-	128.116
Obligatory reserves with the Central Bank	73.945	-	-	73.945
Placements with other banks	-	29.572	-	29.572
Debt securities available for sale	1.568	-	-	1.568
Loans and receivables from customers	1.034.450	-	-	1.034.450
Income tax prepayment	1.764	-	-	1.764
Other assets	5.445	1.134	-	6.579
As at 31 December 2013	1.245.288	30.706	-	1.275.994

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 LIQUIDITY RISK MANAGEMENT

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with regulations laid down by the Banking Agency.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash-settled derivatives. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The following tables show the remaining contractual maturities of the Bank's assets and liabilities as at 31 December 2014 and 31 December 2013, except for financial assets available for sale which have been classified in accordance with their secondary liquidity characteristic as maturing within one month and obligatory reserves which have been classified in the maturity period within one month. Other items of assets and liabilities that have no contractual maturities are classified as having a remaining maturity of over 5 years.

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2014						
Assets						
Cash and cash equivalents	168.787	-	-	-	-	168.787
Obligatory reserve with the Central Bank	81.692	-	-	-	-	81.692
Placements with other banks	55.189	-	489	-		55.678
Financial assets available for sale	24.498	-	-	-	586	25.084
Financial assets at fair value through profit or loss	-	-	-	148	-	148
Loans and receivables from customers	92.867	99.224	275.309	424.477	180.655	1.072.532
Income tax prepayment and other assets	11.201	-	-	-	-	11.201
Property and equipment and intangible assets	-	-	-	-	23.097	23.097
Total assets	**434.234**	**99.224**	**275.798**	**424.625**	**204.338**	**1.438.219**
Liabilities and equity						
Due to banks and other financial institutions	12.786	7.141	83.065	128.713	26.802	258.507
Due to customers	456.144	100.581	135.858	250.822	14.112	957.517
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Subordinated debt	-	2	160	441	-	603
Other liabilities	11.173	-	-	-	114	11.287
Provision for liabilities and charges	-	-	-	-	3.792	3.792
Deferred tax liability	13	-	-	-	-	13
Share capital and reserves	-	-	-	-	206.500	206.500
Total liabilities and equity	**480.116**	**107.724**	**219.083**	**379.976**	**251.320**	**1.438.219**
Maturity gap	(45.882)	(8.500)	56.715	44.649	(46.982)	-

(all amounts are expressed in thousands of KM, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 LIQUIDITY RISK MANAGEMENT (CONTINUED)

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2013						
Assets						
Cash and cash equivalents	154.972	-	-	-	-	154.972
Obligatory reserve with the Central Bank	73.945	-	-	-	-	73.945
Placements with other banks	29.084	-	-	488	-	29.572
Financial assets available for sale	1.568	-	-	-	591	2.159
Financial assets at fair value through profit or loss	-	-	-	273	-	273
Loans and receivables from customers	90.687	103.008	277.168	387.332	176.255	1.034.450
Income tax prepayment and other assets	9.289	-	-	-	-	9.289
Property and equipment and intangible assets	-	-	-	-	24.631	24.631
Total assets	359.545	103.008	277.656	387.605	201.477	1.329.291
Liabilities and equity						
Due to banks and other financial institutions	4.130	5.740	90.633	129.460	31.527	261.490
Due to customers	387.537	37.979	189.961	246.262	11.801	864.360
Financial liabilities at fair value through profit or loss	34	-	-	-	-	34
Subordinated debt	-	2	160	602	-	764
Other liabilities	11.393	-	-	-	114	11.507
Provision for liabilities and charges	-	-	-	-	4.145	4.145
Deferred tax liability	18	-	-	-	-	18
Share capital and reserve	-	-	-	-	186.973	186.793
Total liabilities and equity	393.932	43.721	280.754	376.324	234.560	1.329.291
Maturity gap	(34.387)	59.287	(3.098)	11.281	(33.083)	-

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 LIQUIDITY RISK MANAGEMENT (CONTINUED)

Future cash flows for interest bearing liabilities

The estimated future cash flows for the Bank's interest bearing liabilities, including expected interest as at 31 December 2014 and as at 31 December 2013, are shown in the following table:

	Total expected outflow						
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total	Carrying value
31 December 2014							
Liabilities							
Due to banks and other financial institutions	22.574	41.703	40.583	132.753	27.256	264.869	258.507
Due to customers	457.133	58.318	187.197	269.858	15.335	987.841	957.517
Subordinated debt	-	44	130	457	-	631	603
Total expected outflow	479.707	100.065	227.910	403.068	42.591	1.253.341	1.216.627

	Total expected outflow						
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total	Carrying value
31 December 2013							
Liabilities							
Due to banks and other financial institutions	4.142	6.112	92.971	135.078	32.720	271.023	261.490
Due to customers	380.110	38.350	195.461	258.832	13.103	885.856	864.360
Subordinated debt	-	45	132	630	-	807	764
Total expected outflow	384.252	44.507	288.564	394.540	45.823	1.157.686	1.126.614

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 MARKET RISK

The Bank is exposed to market risk which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, foreign currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

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

5.3.1 FOREIGN EXCHANGE RISK

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

In order to manage foreign exchange rate risk more efficiently, the Bank monitors economic and other business changes in the environment in order to predict possible changes in foreign currency activities, exchange rates, and foreign currency risk.

Overall exposure to foreign exchange risks is monitored within Risk Management Department using techniques such as Value-at-Risk ("VaR") and stress testing.

FX Value-at-Risk is an individual, concise, statistical measurement of possible losses in the portfolio. VaR is a measurement of loss under normal movements of risk factors on the market. The likelihood of losses higher than VaR occurring is expected to be low.

The main model assumptions are:

- Being based on the historical methodology
- 99 percent as a confidence interval for Value-at-Risk computation
- One-day held period

The model covers foreign currency risk – valid for foreign currency transactions and positions denominated on foreign currencies; resulting from foreign currency rate volatility.

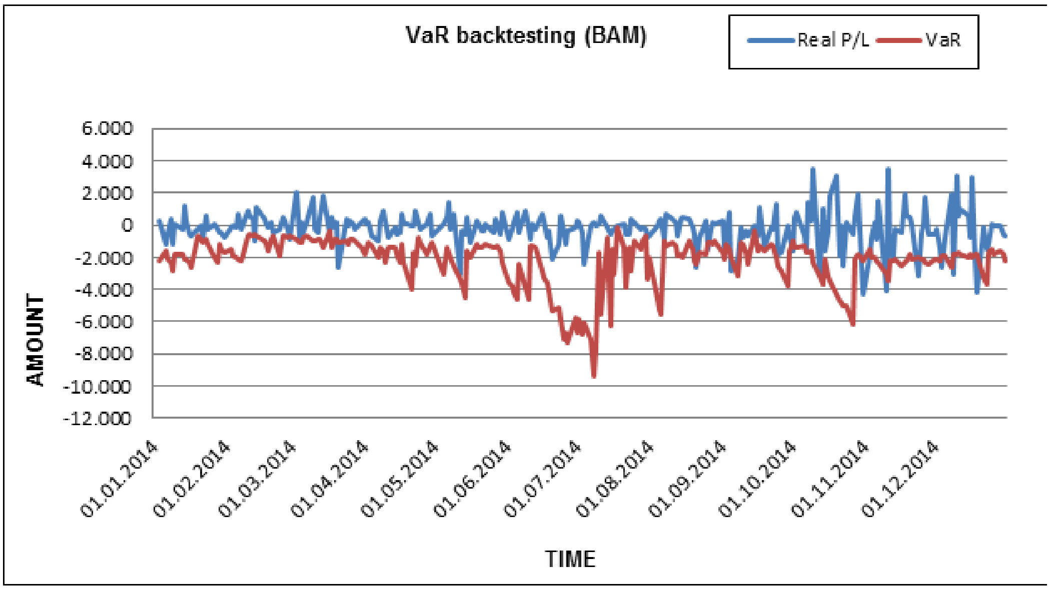
The model can compute VaR at different aggregation levels – from a single position to any sub-portfolio level. Therefore, the model allows a detailed analysis of risk profiles for the multi-level portfolio hierarchy and diversity effects occurring. Furthermore, VaR measurement can be expounded based on risk source (risk factors). These features of a more detailed risk monitoring system allow the determination of an efficient limit structure which can be compared through different organisational units.

The quality of the implemented risk measurement model is constantly assessed. The Bank performs back-testing of the computed VaR measures with the actual gain and losses for the same period.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 MARKET RISK (CONTINUED)

5.3.1 FOREIGN EXCHANGE RISK (CONTINUED)



TDuring 2014 the Bank recorded 16 back-testing exceptions (2013: 20 exception) when actual losses exceeded the daily VAR amount.

The Bank is exposed to foreign currency risk when there is no matching between assets and liabilities and off-balance sheet positions due to cash flows denominated in foreign currencies. Portfolio exposure to foreign currency risk arises from portfolio sensitivity to fluctuations in exchange rate values. The degree of foreign currency risk depends on the amount of open positions and the degree of potential change in foreign currency rates.

The Bank considers that it is not currently exposed to foreign currency risk related to EUR due to the fact that Convertible Mark is pegged to EURO (1 EUR = KM 1.955830). Exposure is more prominent for USD and CHF. The Bank performs stress testing based on the assumption of a 10% increase or decrease in foreign currency rates against the relevant local currency. The sensitivity rate of 10% is used when reporting internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. Stress testing is performed on an annual basis. The results of the most recent test performed are presented here below:

31 December 2014

Currency	Open position (in KM)	Stress Test	
		10% Move Up	10% Move Down
CHF	54.000	5.400	(5.400)
GBP	4.000	400	(400)
USD	(376.000)	(37.600)	37.600
HRK	27.000	2.700	(2.700)
CAD	13.000	1.300	(1.300)
SEK	32.000	3.200	(3.200)
Other	95.000	9.500	(9.500)
EUR	4.121.000	-	-

(all amounts are expressed in thousands of KM, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 MARKET RISK (CONTINUED)

5.3.1 FOREIGN EXCHANGE RISK (CONTINUED)

31 December 2013

Currency	Open position (in KM)	StressTest	
		10% Move Up	10% Move Down
CHF	70.000	7.000	(7.000)
GBP	9.000	900	(900)
USD	(201.000)	(20.100)	20.100
HRK	25.000	2.500	(2.500)
CAD	6.000	600	(600)
AUD	31.000	3.100	(3.100)
Other	57.000	5.700	(5.700)
EUR	(7.168.000)	-	-

The analysis outlined above is based on the open foreign currency position of the Bank, which includes all asset and liability and off-BS positions.

If the currency position of a foreign currency is "long" (assets exceeding liabilities) and the exchange rate for this currency increases/(decreases) in relation to the KM, the Bank will experience a foreign exchange gain/(loss).

If the currency position of a foreign currency is "short" (liabilities exceeding assets) and the exchange rate for this currency (increases)/decreases in relation to KM, the Bank will experience a foreign exchange (loss)/gain.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank monitors its foreign exchange (FX) position for compliance with the regulatory requirements of the Banking Agency of the Federation of Bosnia and Herzegovina established in respect of limits on open positions. The Bank seeks to match assets and liabilities denominated in foreign currencies to avoid foreign currency exposures.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 MARKET RISK (CONTINUED)

5.3.1 FOREIGN EXCHANGE RISK (CONTINUED)

Foreign exchange position

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2014 and 31 December 2013. Included in the table are the Bank's assets and liabilities at carrying amounts categorised by currency. The Bank has a number of agreements governed by a foreign currency clause. The KM value of principal in such agreements is determined by the movement in foreign exchange rates. The principal balance of the related exposure is included in the table below in the column "EURO linked".

The Bank had the following significant currency positions:

31 December 2014	EURO	EURO linked	EURO total	USD	Other FX	KM	Total
Assets							
Cash and cash equivalents	21.512	-	21.512	1.059	6.346	139.870	168.787
Obligatory reserves with the Central Bank	-	-	-	-	-	81.692	81.692
Placement with other banks	39.594	-	39.594	16.084	-	-	55.678
Financial assets available for sale	47	-	47	-	-	25.037	25.084
Financial assets at fair value through profit or loss	147	-	147	-	-	1	148
Loans and receivables from customers	569	721.869	722.438	165	34	349.895	1.072.532
Income tax prepayment	-	-	-	-	-	1.971	1.971
Other asset	1.049	-	1.049	188	3	7.990	9.230
Property and equipment and intangible assets	-	-	-	-	-	23.097	23.097
Total assets	62.918	721.869	784.787	17.496	6.383	629.553	1.438.219
Liabilities and equity							
Due to banks and other fnancial Institutions	255.755	-	255.755	228	26	2.498	258.507
Due to customers	411.313	79.624	490.937	17.713	6.565	442.302	957.517
Subordinated debt	-	-	-	-	-	603	603
Other liabilities	700	-	700	13	79	10.495	11.287
Provision for liabilities and charges	-	-	-	-	-	3.792	3.792
Deferred tax liability	-	-	-	-	-	13	13
Share capital and reserves	-	-	-	-	-	206.500	206.500
Total liabilities and equity	667.768	79.624	747.392	17.954	6.670	666.203	1.438.219
Net foreign exchange position	(604.850)	642.245	37.395	(458)	(287)	(36.650)	-

(all amounts are expressed in thousands of KM, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 MARKET RISK (CONTINUED)

5.3.1 FOREIGN EXCHANGE RISK (CONTINUED)

31 December 2013	EURO	vezane za EURO	EURO ukupno	USD	Ostale strane valute	KM	Ukupno
Assets							
Cash and cash equivalents	8.454	-	8.454	530	5.658	140.330	154.972
Obligatory reserves with the Central Bank	-	-	-	-	-	73.945	73.945
Placement with other banks	14.180	-	14.180	15.392	-	-	29.572
Financial assets available for sale	39	-	39	-	-	2.120	2.159
Financial assets at fair value through profit or loss	273	-	273	-	-	-	273
Loans and receivables from customers	2.855	720.364	723.219	308	-	310.923	1.034.450
Income tax prepayment	-	-	-	-	-	1.764	1.764
Other asset	1.002	-	1.002	30	-	6.493	7.525
Property and equipment and intangible assets	-	-	-	-	-	24.631	24.631
Total assets	26.803	720.364	747.167	16.260	5.658	560.206	1.329.291
Liabilities and equity							
Due to banks and other financial institutions	258.237	-	258.237	10	117	3.126	261.490
Due to customers	388.993	59.284	448.277	16.887	5.423	393.773	864.360
Financial liabilities at fair value through profit or loss	-	-	-	-	-	34	34
Subordinated debt	-	-	-	-	-	764	764
Other liabilities	1.299	-	1.299	123	3	10.082	11.507
Provision for liabilities and charges	-	-	-	-	-	4.145	4.145
Deferred tax liability	-	-	-	-	-	18	18
Share capital and reserves	-	-	-	-	-	186.973	186.973
Total liabilities and equity	648.529	59.284	707.813	17.020	5.543	598.915	1.329.291
Net foreign exchange position	(621.726)	661.080	39.354	(760)	115	(38.709)	-

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 MARKET RISK (CONTINUED)

5.3.2 INTEREST RATE RISK

Interest rate risk is defined as the exposure of a Bank's financial condition to adverse movements in interest rates, referring to the banking book, meaning the set of on- and off-balance-sheet financial assets and liabilities which are part of the core lending and deposit collecting activities performed by the Bank.

The Bank is exposed to interest rate risk as the Bank borrows and lends funds at both fixed and floating interest rates. The risk is managed by the Bank by maintaining an appropriate mix between fixed and floating rate borrowings and lending.

Interest rate risk reflects the possibility of loss of profit and/or erosion of capital due to a change in interest rates. It relates to all products and balances that are sensitive to changes in interest rates. This risk comprises two components: income component and investment component.

The income component arises from a lack of harmonisation between the active and passive interest rates of the Bank (interest on placements is fixed, interest for liabilities is floating and vice versa).

The investment component is a consequence of the inverted relationship between price and interest rate fluctuations of securities.

The Bank strives to protect itself from interest rate risk by harmonizing the type of interest rate (fixed and floating), currency, related interest rate and the date of interest rate change for all products for which it concludes contracts (which are sensitive to interest rate changes). Any mismatch among the abovementioned elements results in exposure of the Bank to interest rate risk.

The adopted system operates at an analytical level commensurate to the complexity and risk of the banking book, and ensures that the risk profile can be examined from two separate, but complementary, perspectives:

- The economic value perspective, which considers the impact of changes in interest rates and related volatilities on the present value of all future cash flows;
- The earnings perspective, focused on analysing the impact that changes in interest rates and related vola tilities generate on the net interest income and, therefore, on the related effects on interest margin.

The Bank uses the following methods to measure interest rate risks:

- Shift sensitivity of fair value;
- Shift sensitivity of the interest margin.

The shift sensitivity of fair value measures the changes in economic value of a financial portfolio resulting from a parallel shift in the discount curves. The total value of shift sensitivity is broken down by time bucket (bucket analysis), in order to identify the distribution of risk over the time axis. The operating limit currently in force for shift sensitivity of fair value (by +100 bp parallel shift of yield curves) amounts to KM 5,867 thousand (EUR 3,000 thousand). The limit is set up by the Bank with the aim of keeping exposure within low levels which are compatible with self-imposed risk parameters.

(all amounts are expressed in thousands of KM, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 MARKET RISK (CONTINUED)

5.3.2 INTEREST RATE RISK (CONTINUED)

If changes in interest rates had been 100 basis points higher and all other variables were held constant at 31 December 2014, the effect is KM 3,076 thousand (31 December 2013: KM 3,887 thousand). The results of the analysis of the shift sensitivity of fair value are below the current operating limit and are presented in the table below:

Shift Sensitivity (+100 bp)	31 December 2014	31 December 2013
EUR	2.786	2.992
USD	109	119
CHF	13	-
KM	166	764
Other currencies	2	12
Total	3.076	3.887

The sensitivity of the interest margin quantifies the short-term (twelve months) impact on the interest margin of a parallel, instantaneous and permanent shock in the interest rate curve. This measure highlights the effect of changes in interest rates on the portfolio being measured, excluding assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered a predictor of the future levels of the interest margin.

The result of shift sensitivity of the interest margin, if changes in interest rates market moving had been 100 basis points higher/lower and all other variables were held constant at 31 December 2014 is an increase/decrease of KM 2,940 thousand (31 December 2013: KM 3,532 thousand). In addition, the Bank also prepares shift sensitivity of the interest margin based on the sensitivity range of +50/-50 bps. Increase by 50 bps of interest rates would increase the result for the year by KM 1,476 thousand, while a decrease by 50 bps in interest rates would decrease result for the year by 592 thousand as of 31 December 2014 (31 December 2013: KM +/-1,766 thousand).

In order to measure the Bank's vulnerability under stressful market conditions the interest rate risk measurement system adopted by the Bank allows a meaningful evaluation of the effect of stressful market conditions on the Bank ("scenario analysis"), or rather abrupt changes in the general level of interest rates, changes in the relationships among key market rates (i.e. basis risk), changes in the slope and the shape of the yield curve (i.e. yield curve risk), changes in the liquidity of key financial markets or changes in the volatility of market rates.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.4 CAPITAL MANAGEMENT

The Bank's objectives for capital management, which is a broader concept, in the opinion of the Management Board, than the 'equity' shown in the statement of financial position, are as follows:

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

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by Banking Agency of Federation of Bosnia and Herzegovina for supervisory purposes. The required information is filed with the Agency on a quarterly basis.

The Bank's regulatory capital for monitoring adequacy according to the Agency's methodology consists of:

- Tier 1 Capital or Core Capital: share capital (net of the carrying value of treasury shares), share premium, retained earnings and reserves created by appropriations of retained earnings; amount of negative revaluation reserves arising from the effects of changes in the fair value of assets and audited profit for the current period, upon approval and retention by the General Shareholders Assembly (from 2014);
- Tier 2 Capital or Supplementary Capital: qualifying principal amounts of subordinated loan capital, collective impairment allowances and amount of positive revaluation reserves arising from the effects of changes in the fair value of assets; and
- Deductible items.

Risk-weighted assets are measured by means of a hierarchy of four weightings classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance-sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

(all amounts are expressed in thousands of KM, unless otherwise stated)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.4 CAPITAL MANAGEMENT (CONTINUED)

The table below summarises the computation of regulatory capital and the capital adequacy ratio of the Bank as of 31 December 2014 and 31 December 2013 (information on risk-weighted assets is unaudited), taken from the calculations submitted to the Agency in respect of those period-ends.

	31. December 2014.	31. December 2013.
Tier 1 capital		
Share capital	44.782	44.782
Share premium	57.415	57.415
Statutory and other reserves	5.939	5.939
Retained earnings brought forward	60.172	46.743
Fair value reserves, negative	(122)	-
Intangible assets	(4.494)	(4.225)
Total qualifying Tier 1 Capital	163.692	150.654
Tier 2 capital		
General provisions – FBA regulations	24.207	22.656
Fair value reserves, positive	381	379
Subordinated debt	602	762
Audited profit for the period	-	13.429
Total qualifying Tier 2 Capital	25.190	37.226
Adjustment for shortfall in regulatory reserve	(15.582)	(13.569)
Total regulatory capital	173.300	174.311
Risk weighted assets (unaudited)		
On balance sheet	1.048.685	1.000.104
Off balance sheet	121.109	104.580
Total	1.169.794	1.104.684
Operational risk	84.155	82.967
Total weighted risk	1.253.949	1.187.651
Capital adequacy ratio	13,82%	14,68%

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.4 CAPITAL MANAGEMENT (CONTINUED)

In accordance with the Agency regulations, Tier 1 capital does not include the balance on the regulatory reserve for credit losses (KM 18,286 thousand at 31 December 2014) which is part of net equity in the statement of financial position. However, general provisions calculated in accordance with Agency rules (KM 24,207 thousand at 31 December 2014) are included as Tier 2 capital.

In addition, an adjustment is made for the shortfall in regulatory reserves in respect of any additional requirements calculated at the reporting date (date of submission of the capital adequacy calculation to the Agency, which, in accordance with local regulations, is performed on a quarterly basis). For 2014 this amounted to KM 15,582 thousand (2013: 13,569 thousand).

In accordance with Agency regulations, the Decision on minimum standards for capital management of banks and capital protection dated 30 May 2014 (Official Gazette of the Federation of BiH 46/14), audited profit for the year is included in the calculation of regulatory capital from the date when the audited financial statements for the period have been issued and approved by the General Shareholders Assembly. Should the profit for the year ended 31 December 2014 be entirely retained, the Capital Adequacy Ratio as of 31 December 2014 would be 15.39%. In accordance with Agency regulation applicable as at the date of issuance of the Bank's financial statements for the year ended 31 December 2013, audited profit for the year had to be included in the calculation of regulatory capital if the audited financial statements for the period had been issued and approved by the Supervisory Board before submission of final official financial reports to the Agency. In the above calculation, audited profit for 2013 has been included in the calculation of Capital adequacy as at 31 December 2013.

In addition, in accordance with the Agency Letter from December 2014 (Acknowledgment of items (statements) of core capital in accordance with Provisions of Decision on minimum standards for capital management of banks and capital protection) retained earnings and other reserves should be approved by the General Shareholders Assembly for unconditional, permanent and full coverage of potential future losses in order to be included into Tier 1 Capital of banks before submission of final official financial reports to the Agency due on 5 March 2015. The Supervisory Board of the Bank at the meeting held on 9 February 2015 rendered the decision to call an extraordinary General Shareholders Assembly on 3 March 2015 proposing the decisions to the General Shareholders Assembly to approve the allocation of retained earnings and other reserves from profit allocation cumulated in previous periods. The Bank expects this approval to take place on 3 March 2015 and as a result has included reserves and retained earnings in the calculation of Capital adequacy as at 31 December 2014 as presented above.

NEUM – is characterized by long and warm summers and short and mild winters and is considered one of the top coastal towns having the most amount of sunny days. Favourable climate conditions allow, beside swimming and sunbathing, almost through 7 months of the year climate therapy with fresh sea air, strolls along the coastline as well as many sport activities on water.


PANSION
NOVA

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

6.1 VALUATION MODELS

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign exchange rates, equity prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank determines the fair value of debt securities (treasury bills and bonds) using an internal valuation model which considers their remaining maturity and the latest available auction prices of equivalent instruments.

The fair value of foreign currency forward derivatives is estimated using available market data for FX spot and cash curves of relevant currencies. Based on such inputs, forward points and forward rates are computed, which are then used for daily mark-to-market of outstanding deals.

The fair value of equity securities classified as available for sale and at fair value through profit or loss traded on an active market is based on closing bid prices at the reporting date for these securities.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

6.2 FINANCIAL INSTRUMENTS AT FAIR VALUE – FAIR VALUE HIERARCHYI

The following table analyses financial instruments measured at fair value at the reporting date distributed according to the fair value hierarchy. The amounts are based on the values recognised in the statement of financial position.

31 December 2014	Note	Level 1	Level 2	Level 3	Total
		BAM '000	BAM '000	BAM '000	BAM '000
Financial assets available for sale	22 a)				
Bonds issued by the Federation of Bosnia and Herzegovina		-	47	-	47
Equity securities issued by non-resident legal entities		-	24.498	-	24.498
Total		**-**	**24.545**	**-**	**24.545**
Financial assets available at fair value through profit and loss	22 b)				
Equity shares		147	-	-	147
Derivatives held for trading – OTC product		-	1	-	1
Total		**147**	**24.546**	**-**	**24.693**

31 December 2013	Note	Level 1	Level 2	Level 3	Total
		BAM '000	BAM '000	BAM '000	BAM '000
Equity securities issued by non-resident legal entities	22 a)	-	38	-	38
Bonds and treasury bills issued by the Federation of Bosnia and Herzegovina	22 a)	-	1.568	-	1.568
Equity shares	22 b)	273	-	-	273
Total financial assets		273	1.606	-	1.879
Derivatives liabilities held for trading – OTC products	22 b)	-	34	-	34
Total financial liabilities		-	34	-	34

(all amounts are expressed in thousands of KM, unless otherwise stated)

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

6.3 FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

31 decembar 2014	Level 1	Level 2	Level 3	Total fair value	Carrying value
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Assets					
Cash and cash equivalents	-	31.999	136.788	168.787	168.787
Obligatory reserve with the Central Bank	-	-	81.692	81.692	81.692
Placements with other banks	-	55.678	-	55.678	55.678
Loans and receivables from customers	-	244.273	810.276	1.054.549	1.072.532
Total	-	331.950	1.028.756	1.360.706	1.378.689
Liabilities					
Due to banks and other financial institutions	-	54.090	204.417	258.507	258.507
Due to customers	-	65.870	889.362	955.232	957.517
Subordinated debt	-	-	603	603	603
Total	-	119.960	1.094.382	1.214.342	1.216.627

31 December 2013	Level 1	Level 2	Level 3	Total fair value	Carrying value
	KM'000	KM '000	KM '000	KM '000	KM '000
Assets					
Cash and cash equivalents	-	154.972	-	154.972	154.972
Obligatory reserve with the Central Bank	-	73.945	-	73.945	73.945
Placements with other banks	-	29.576	-	29.576	29.576
Loans and receivables from customers	-	1.051.767	-	1.051.767	1.034.450
Total	-	1.310.260	-	1.310.260	1.292.939
Liabilities					
Due to banks and other financial institutions	-	264.887	-	264.887	261.490
Due to customers	-	879.444	-	879.444	864.360
Subordinated debt	-	792	-	792	764
Total	-	1.145.123	-	1.145.123	1.126.614

To improve the accuracy of the valuation estimate the Bank has at the beginning of 2014 implemented revised valuation methodology defined by the Intesa Sanpaolo Group. Movements between Level 2 and Level 3 compared to year 2013 are dependant on the revised approach.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

6.3 FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

In estimating the fair value of the Bank's financial instruments and in assigning the instruments to the relevant level of fair value hierarchy, the methods, assumptions and limitations described below apply in accordance with the approach revised at Intesa Sanpaolo Group.

CASH AND CASH EQUIVALENTS

The carrying values of cash and balances with banks are generally deemed to approximate their fair value. Obligatory reserve with the Central Bank is classified as Level 3, as well as, on demand balances versus financial institutions in consideration of the fact that the setting of their exit price could include subjective valuations of the counterparty's credit risk difficult to quantify.

PLACEMENTS WITH OTHER BANKS

Placements with banks mostly represent overnight and short term deposits; hence there is no significant difference between the fair value of these deposits and their carrying value. Their classification to Level 2 of the fair value hierarchy depends on the absence, or low relevance, of non-observable parameters in setting their exit price.

LOANS AND RECEIVABLES FROM CUSTOMERS, AMOUNTS DUE TO CUSTOMERS, BANKS AND OTHER FINANCIAL INSTITUTIONS

Fair value is estimated through discounted cash flow method in case of positions with residual medium-long term maturities, while it is approximated with the book value, net of collective impairment/individual adjustment in case of short-term loans, loans payable on demand or with an indefinite maturity for impaired loans.

For the purpose of division by fair value level, non performing/impaired assets are classified in Level 3, since the exit price is significantly influenced by the forecasts for losses determined by the credit officer based on future cash flow expectations and the related collection schedules. This entity specific assessment component outweighs other components (as, for example market interest rates), leading to attribution of Level 3 in the hierarchy.

Performing loans with original maturity equal or lower than 12 months, as well as short-term liabilities to customers and banks are classified into Level 2 of the fair value hierarchy, due to the absence or low relevance of non-observable parameters in setting their exit prices.

Medium-long term loans and liabilities with customers, banks and other financial institutions are classified into Level 3 of the fair value hierarchy, considering the relevance of entity specific assessment components in estimating the exit price.

7. OPERATING SEGMENTS

On a regular basis, the Bank's management analyses the overall results of the Bank with reference to the contributions by individually significant operating segments. Corporate, Retail and Treasury business lines have been identified as relevant operating segments, insofar as financial products managed by each of them and the respective counterparties with whom each segment enters into negotiation are specific for each segment and are not managed by / related to any of the others.

Even though lending and fund collection are actually performed by all operating segments, the financial characteristics of the loans, deposits and credit lines managed are specifically designed for each of them and are applicable only to counterparties related to each specific segment.

The financial results of each operating segment are recorded through a combined methodology of "direct" and "indirect" allocation of income and cost. Income is mainly directly allocated to the respective segment where it was generated, while costs are directly allocated whenever they are identified as immediately generated within the operating segment and are indirectly charged to the operating segments whenever they are sustained by central organisational units.

An internal transfer rate methodology is also applied for allocation of the cost of funding to the operating segments.

Income statement items in the tables presented below on segment information are in the format used for management reporting purposes.

7. OPERATING SEGMENTS (CONTINUED)

Segmental information for the year ending 31 December 2014

	Retail	Corporate	Treasury	Total
Interest income	42.229	37.186	366	79.781
Interest expense	(13.630)	(10.204)	(832)	(24.666)
Net interest income	**28.599**	**26.982**	**(466)**	**55.115**
Fee and commission income	14.548	5.291	93	19.932
Fee and commission expense	(4.102)	(792)	(331)	(5.225)
Net fee and commission income	10.446	4.499	(238)	14.707
Net profit of trading activities and foreign exchange	75	15	1.593	1.683
Other operating income	501	204	31	736
Operating income	576	219	1.624	2.419
Personnel expense	(14.292)	(4.538)	(563)	(19.393)
Other administrative expense	(13.629)	(3.569)	(407)	(17.605)
Depreciation expense	(2.986)	(497)	(54)	(3.537)
Operating expense	(30.907)	(8.604)	(1.024)	(40.535)
Profit before impairment losses, and other provisions and income tax	8.714	23.096	(104)	31.706
Impairment losses and provisions	459	(10.292)	(2)	(9.835)
PROFIT BEFORE INCOME TAX	**9.173**	**12.804**	**(106)**	**21.871**
Income tax				**(2.223)**
NET PROFIT FOR THE YEAR				**19.648**

(all amounts are expressed in thousands of KM, unless otherwise stated)

7. OPERATING SEGMENTS (CONTINUED)

Segmental information as at 31 December 2014

	Retail	Corporate	Treasury	Total
Cash and cash equivalents	31.998	-	136.789	168.787
Obligatory reserves with the Central Bank	-	-	81.692	81.692
Placements with other banks	-	-	55.678	55.678
Financial assets available for sale	-	-	25.084	25.084
Financial assets at fair value through profit or loss	-	-	148	148
Loans and receivables from customers	480.012	592.520	-	1.072.532
Other unallocated amounts	-	-	-	34.298
TOTAL ASSETS	512.010	592.520	299.391	1.438.219
Due to banks and other financial institutions	-	20.637	237.870	258.507
Due to customers	487.724	469.793	-	957.517
Subordinated debt	-	-	603	603
Other unallocated amounts	-	-	-	15.092
TOTAL LIABILITIES	487.724	490.430	238.473	1.231.719

7. OPERATING SEGMENTS (CONTINUED)

Segmental information for the year ending 31 December 2013

	Retail	Corporate	Treasury	Total
Interest income	41.085	37.885	322	79.292
Interest expense	**(13.730)**	**(12.466)**	**(414)**	**(26.610)**
Net interest income	**27.355**	**25.419**	**(92)**	**52.682**
Fee and commission income	13.092	5.510	37	18.639
Fee and commission expense	(3.687)	(723)	(333)	(4.743)
Net fee and commission income	**9.405**	**4.787**	**(296)**	**13.896**
Net profit of trading activities and foreign exchange	51	11	1.746	1.808
Other operating income	**431**	**380**	**109**	**920**
Operating income	**482**	**391**	**1.855**	**2.728**
Personnel expense	(13.936)	(4.305)	(554)	(18.795)
Other administrative expense	(13.856)	(4.011)	(400)	(18.267)
Depreciation expense	(3.546)	(435)	(49)	(4.030)
Operating expense	(31.338)	(8.751)	(1.003)	(41.092)
Profit before impairment losses, and other provisions and income tax	5.904	21.846	464	28.214
Impairment losses and provisions	(3.985)	(9.118)	28	(13.075)
PROFIT/(LOSS) BEFORE INCOME TAX	1.919	12.728	492	15.139
Income tax				(1.710)
NET PROFITFOR THE YEAR				**13.429**

(all amounts are expressed in thousands of KM, unless otherwise stated)

7. OPERATING SEGMENTS (CONTINUED)

Segmental information as at 31 December 2013

	Retail	Corporate	Treasury	Total
Cash and cash equivalents	26.856	-	128.116	154.972
Obligatory reserves with the Central Bank	-	-	73.945	73.945
Placements with other banks	-	-	29.572	29.572
Financial assets available for sale	-	-	2.159	2.159
Financial assets at fair value through profit or loss	-	-	273	273
Loans to customers	455.010	579.440	-	1.034.450
Other unallocated amounts	-	-	-	33.920
TOTAL ASSETS	481.866	579.440	234.065	1.329.291
Due to banks and other financial institutions	-	25.069	236.421	261.490
Due to customers	426.487	437.873	-	864.361
Financial liabilities at fair value through profit or loss	-	-	34	34
Subordinated debt	-	-	764	764
Other unallocated amounts	-	-	-	15.669
TOTAL LIABILITIES	426.487	462.942	237.219	1.142.318

8. INTEREST INCOME

	2014.	2013.
Corporate clients	37.132	37.855
Retail clients	42.229	41.080
Banks and other financial institutions	260	163
Interest on available-for-sale financial assets	160	188
Other	-	6
	79.781	79.292

9. INTEREST EXPENSE

	2014.	2013.
Corporate clients	7.639	9.896
Retail clients	13.005	11.095
Banks and other financial institutions	3.926	5.259
Other	96	360
	24.666	26.610

10. FEE AND COMMISSION INCOME

	2014.	2013.
Domestic payment transactions	4.072	3.685
Credit card activities	5.962	5.546
Foreign payment transactions	2.647	2.752
FX transactions	1.811	1.827
Guarantees	1.805	1.766
Agency services	170	224
Other	3.465	2.839
	19.932	18.639

(all amounts are expressed in thousands of KM, unless otherwise stated)

11. FEE AND COMMISSION EXPENSE

	2014.	2013.
Credit card operations	3.761	3.270
Central Bank services	289	243
Domestic payment transactions	427	548
Guarantees	636	562
E-banking service	112	120
	5.225	**4.743**

12. NET TRADING INCOME

	2014.	2013.
Net foreign exchange losses from the translation of monetary assets and liabilities	(106)	(4)
Net gains from foreign exchange spot trading	1.689	1.782
Net losses / gains on equity securities	(1)	45
Net gains on financial instruments at fair value through profit or loss	101	30
	1.683	**1.853**

13. OTHER OPERATING INCOME

	2014.	2013.
Income from claims settled by insurance companies and recharges from customers	228	635
Gain on sale of property	43	57
Other income	465	183
	736	**875**

14. PERSONNEL EXPENSES

	2014.	2013.
Net salaries	13.202	12.499
Tax and contributions	5.621	5.880
Provisions for liabilities and charges (Note 31)	235	11
Other expenses	333	405
	19.393	**18.795**

Personnel expenses include KM 3,172 thousand (31 December 2013: KM 3,225 thousand) of defined pension contributions paid into the State pension plan. Contributions are calculated as percentage of the gross salary paid. The Bank had 521 employees as at 31 December 2014 (528 as at December 2013).

15. ADMINISTRATIVE EXPENSES

	2014.	2013.
Rent and other rent-related expense	3.358	3.058
Telecommunication and post expense	2.607	2.647
Savings deposit insurance and other insurance charges	2.244	2.156
Provisions for liabilities and charges (Note 31)	236	126
Material expenses	854	1.102
Representation and marketing expense	623	643
Consultancy and Federal Banking Agency expenses	1.657	1.621
Energy	772	826
Maintenance expenses	2.519	2.709
Security and transport costs	1.772	2.043
Other costs	963	1.336
	17.605	**18.267**

16. NET IMPAIRMENT LOSSES AND PROVISIONS

The charge to income statement in respect of impairment losses and provisions is analysed as follows:

Net impairment losses and provisions	2014.	2013.
-for loans to customers (Note 23)	9.524	11.615
-for other assets (Note 24)	536	268
-for property (Note 25)	469	250
-for off-balance sheet items (Note 31)	(694)	942
	9.835	**13.075**

(all amounts are expressed in thousands of KM, unless otherwise stated)

17. INCOME TAXES

	2014.	2013.
Current tax recognised in the income statement	2.223	1.710
Deferred tax recognised in other comprehensive income (Note 32)	13	10

Income tax recognised in the income statement comprises current tax. The current rate of income tax amounts to 10% (2013: 10%).

	2014.	2013.
Profit before income tax	21.871	15.139
Tax calculated at rate of 10%	2.187	1.514
Non-deductible expenses	37	504
Non-taxable income	(1)	(308)
Income tax expense	2.223	1.710
Average effective income tax rate	10,2%	11,3%

18. BASIC AND DILUTED EARNINGS PER SHARE

	2014.	2013.
Net profit (KM'000)	19.648	13.429
Weighted average number of ordinary shares outstanding	447.760	447.760
Basic earnings per share (KM)	**43,88**	**30,00**

19. CASH AND CASH EQUIVALENTS

	31 December 2014	31 December 2013
Current account with the Central Bank	116.843	121.900
Cash in hand in domestic currency	22.926	18.371
Cash in hand in foreign currency	9.072	8.485
Current accounts with other banks	19.946	6.216
	168.787	154.972

20. OBLIGATORY RESERVE WITH THE CENTRAL BANK

	31 December 2014	31 December 2013
Obligatory reserve	81.692	73.945

The minimum obligatory reserve as of 31 December 2014 is calculated in the amount of 10% of deposits and borrowings with maturity up to one year and 7% of deposits and borrowings with maturity over one year, and is calculated on a daily basis, and updated every ten calendar days, in arrears. Local inter-bank deposits, and short-term and long-term deposits and borrowings from non-residents are excluded from the calculation.

21. PLACEMENTS WITH OTHER BANKS

	31 December 2014	31 December 2013
Placements with banks	55.678	29.572

Placements with other banks include:

- cash deposit in the amount of KM 489 thousand placed with non –resident banks as security for a guarantee issued by that bank on behalf of a domestic customer as at 31 December 2014 and 31 December 2013.

22. FINANCIAL ASSETS

A) FINANCIAL ASSETS AVAILABLE FOR SALE

	31 December 2014	31 December 2013
Debt instruments		
Bonds issued by the Federation of Bosnia and Herzegovina	24.498	1.568
	24.498	1.568
Equity instruments		
Equity securities at cost	539	553
Equity securities at fair value	47	38
	586	591
	25.084	**2.159**

(all amounts are expressed in thousands of KM, unless otherwise stated)

22. FINANCIAL ASSETS (CONTINUED)

B) FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2014	31 December 2013
Financial assets		
Equity shares designated at fair value through profit or loss	147	273
Derivatives held for trading	1	-
	148	273
Financial liabilities		
Derivatives held for trading	-	34
	-	34

Derivatives held for trading compose foreign currency swaps, details of which are presented in the table below:

	31 December 2014	31 December 2014	31 December 2013	31 December 2013
Financial assets	Notional amount	Fair value	Notional amount	Fair value
Derivatives classified as held for trading – OTC products				
Forward foreign exchange contracts	594	1	-	-
	594	1	-	-

	31 December 2014	31 December 2014	31 December 2013	31 December 2013
Financial liabilities	Notional amount	Fair value	Notional amount	Fair value
Derivatives classified as held for trading – OTC products				
Forward foreign exchange contracts	-	-	601	34
	-	-	601	34

23. LOANS AND RECEIVABLES FROM CUSTOMERS

	31 December 2014	31 December 2013
SHORT-TERM LOANS		
Corporate		
- in KM and KM linked to foreign currency	279.538	297.263
- in foreign currency	1.515	1.728
Retail		
- in KM and KM linked to foreign currency	62.232	61.647
- in foreign currency	-	-
	343.285	360.638
LONG-TERM LOANS		
Corporate		
-in KM and KM linked to foreign currency	373.242	335.831
-in foreign currency	2.967	5.095
Retail		
-in KM and KM linked to foreign currency	441.442	418.036
-in foreign currency	125	65
	817.776	759.027
Total loans	1.161.061	1.119.665
Less: impairment allowance	(88.529)	(85.215)
	1.072.532	1.034.450

Loans and receivables from customers are presented including accrued interest in the amount of KM 8,977 thousand (2013: KM 9,076 thousand), and net of deferred fees in the amount of KM 4,845 thousand (2013: KM 3,903 thousand).

As of 31 December 2014, the net amount of short-term and long-term loans in domestic currency includes loans disbursed and repayable in domestic currency index-linked to the KM:EUR exchange rate in the amount of KM 5,111 thousand and KM 716,758 thousand, respectively (31 December 2013: KM 18,914 thousand and KM 701,450 thousand, respectively).

Movements in the provision for impairment of loans and receivables are summarised as follows:

	2014	2013
Balance as at 1 January	85.215	82.340
Net charge to income statement (Note 16)	9.524	11.615
Unwinding of discount	(2.862)	(3.054)
Transfer based on migration of AMEX portfolio	-	165
Transfers – other	53	46
Write-offs	(3.401)	(5.897)
Balance as at 31 December	88.529	85.215

(all amounts are expressed in thousands of KM, unless otherwise stated)

23. LOANS AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

Concentration of credit risk by industry:

Economic sector risk concentration in the gross amount of loans and receivables is as follows:

	31. December 2014	31 December 2013
Trade	247.315	263.824
Manufacturing, agriculture, forestry, mining and energy	219.832	215.864
Construction industry	43.966	38.993
Services, finance, sport, tourism	39.786	34.709
Administrative and other public institutions	42.032	18.781
Transport and telecommunications	36.620	42.457
Other	27.711	25.289
Citizens	503.799	479.748
	1.161.061	**1.119.665**

24. OTHER ASSETS

	31. December 2014	31 December 2013
Prepaid expenses	2.061	2.126
Fees receivable	986	881
Receivables from card operations	1.895	1.851
Assets acquired upon foreclosure of loans	715	946
Other assets	4.705	2.771
Total other assets	10.362	8.575
Less: impairment allowance	(1.132)	(1.050)
	9.230	**7.525**

The movement in the impairment allowance for other assets are summarised as follows:

Balance as at 1 January	1.050	2.193
Net charge to income statement (Note 16)	536	268
Transfer to property and equipment impairment	(357)	(601)
Write-offs	(97)	(810)
Balance as at 31 December	**1.132**	**1.050**

25. PROPERTY AND EQUIPMENT

	Land and buildings	Computers and other equipment	Assets in the course of contruction	Leasehold improvements	Total
Cost					
At 1 January 2013	14.248	21.794	49	8.642	44.733
Additions	-	-	1.290	-	1.290
Transfer from other assets	2.579	-	-	-	2.579
Disposals	-	(791)	-	-	(791)
Transfers	47	1.024	(1.117)	46	-
At 31 December 2013	16.874	22.027	222	8.688	47.811
Additions	-	-	1.527	-	1.527
Transfer from other assets	761	17	-	-	778
Disposals	(206)	(1.876)	-	-	(2.082)
Transfers	147	1.218	(1.536)	171	-
At 31 December 2014	17.576	21.386	213	8.859	48.034
Accumulated depreciation					
At 1 January 2013	2.278	14.467	-	7.486	24.231
Charge for the year	325	2.124	-	604	3.053
Transfer from other assets	601	-	-	-	601
Impairment loss (Note 16)	250	-	-	-	250
Disposals	-	(730)	-	-	(730)
At 31 December 2013	3.454	15.861	-	8.090	27.405
Charge for the year	320	1.813	-	375	2.508
Transfer from other asset	357	-	-	-	357
Impairment loss (Note 16)	469	-	-	-	469
Disposals	(15)	(1.294)	-	-	(1.309)
At 31 December 2014	4.585	16.380	-	8.465	29.430
At 31 December 2013	13.420	6.166	222	598	20.406
At 31 December 2014	12.991	5.006	213	394	18.604

(all amounts are expressed in thousands of KM, unless otherwise stated)

26. INTANGIBLE ASSETS

	Software	Assets in the course of construction	Total
Cost			
At 1 January 2013	6.626	136	6.762
Additions	-	2.472	2.472
Transfers	1.203	(1.203)	-
At 31 December 2013	7.829	1.405	9.234
Additions	-	1.297	1.297
Disposals	(174)	-	(174)
Transfers	1.508	(1.508)	-
At 31 December 2014	9.163	1.194	10.357
Amortisation			
At 1 January 2013	4.032	-	4.032
Charge for the year	977	-	977
At 31 December 2013	5.009	-	5.009
Charge for the year	1.029	-	1.029
Disposals	(174)	-	(174)
At 31 December 2014	5.864	-	5.864
At 31 December 2013	2.820	1.405	4.225
At 31 December 2014	3.299	1.194	4.493

27. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2014	31 December 2013
Due to banks		
Current accounts and deposits		
Demand deposits		
-in KM	80	712
-in foreign currencies	10.002	695
Term deposits		
-in foreign currencies	44.009	29.577
	54.091	30.984
Borrowings		
Long-term borrowings		
-foreign banks	183.780	205.437
	183.780	205.437
	237.871	236.421
Due to other financial institutions		
Long-term borrowings		
- -in KM	2.418	2.414
- -in foreign currencies	18.218	22.655
Total borrowings from other financial institutions	20.636	25.069
	258.507	261.490

Current accounts, deposits and borrowings from banks presented above include accrued interest in the amount of KM 476 thousand (2013: KM 1,305 thousand).

Borrowings from other financial institutions are presented including accrued interest in the amount of KM 119 thousand (2013: KM 179 thousand).

(all amounts are expressed in thousands of KM, unless otherwise stated)

28. DUE TO CUSTOMERS

	31 December 2014	31 December 2013
Demand deposits:		
Retail clients:		
-in KM	85.689	75.575
-in foreign currencies	47.078	40.851
Corporate clients:		
-in KM	239.235	195.181
-in foreign currencies	38.623	43.742
Total demand deposits	410.625	355.349
Term deposits:		
Retail clients:		
-in KM	96.153	82.231
-in foreign currencies	258.804	227.830
Corporate clients:		
-in KM	100.848	100.070
-in foreign currencies	91.087	98.880
Total term deposits	546.892	509.011
	957.517	864.360

Amounts due to customers are presented including accrued interest in the amount of KM 10,258 thousand (2013: KM 7,846 thousand).

29. SUBORDINATED DEBT

	31. decembar 2014.	31. decembar 2013.
Ministry of Finance of Bosnia and Herzegovina	603	764
	603	764

With the approval of the Banking Agency of Federation of Bosnia and Herzegovina, the subordinated debt may be classified as Tier 2 capital in the calculation of capital adequacy.

30. OTHER LIABILITIES

	31. December 2014	31 December 2013
Loan repaayments before due dates	3.969	3.528
Liabilities to vendors	1.340	1.105
Liabilities for employees' bonuses	981	43
Liabilities in respect of managed funds (Note 37)	81	107
Credit card liabilities	1.945	2.982
Liabilities to shareholders	140	140
Other liabilities	2.831	3.602
	11.287	11.507

31. PROVISIONS FOR LIABILITIES AND CHARGES

	31. December 2014	31 December 2013
Provisions for legal proceedings	1.717	1.538
Provisions for retirement employee benefits	640	478
Provisions for off-balance-sheet credit risk	1.435	2.129
	3.792	4.145

(all amounts are expressed in thousands of KM, unless otherwise stated)

31. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Movement in provisions for liabilities and charges for the year ended 31 December 2014 are summarized as follows:

	Provisions for legal proceedings (Note 15)	Provisions for retirement employee benefits (Note 14)	Provisions for off-balance- sheet credit risk (Note 16)	Total
Balance at 1 January 2013	1.518	491	1.187	3.196
Net charge to income statement	126	11	942	1.079
Reductions arising from payments	(106)	(24)	-	(130)
Balance at 31 December 2013	1.538	478	2.129	4.145
Balance at 1 January 2014	1.538	478	2.129	4.145
Net charge/(benefit) to income statement	236	235	(694)	(223)
Reductions arising from payments	(57)	(73)	-	(130)
Balance at 31 December 2014	1.717	640	1.435	3.792

The calculation of provisions for retirement benefits of KM 401 thousand as of 31 December 2014 (2013: KM 235 thousand) is performed by an independent actuary, applying a discount rate of 5% over the working life and average salary of each employee.

Provisions for unused days of vacation of KM 239 thousand as of 31 December 2014 (2013: KM 243 thousand) are calculated for every employee, taking as a basis his/her salary and unused days of vacation.

32. DEFERRED TAX LIABILITY

The deferred tax liability relates to taxable temporary differences arising on fair value adjustments of financial assets available for sale. The effect of the fair value adjustment, net of relating tax is recognised in equity.

The movement of deferred tax liabilities is presented in the table below:

	Deferred tax liability
As at 1 January 2014	18
Decrease in liabilities recognised in the statement of comprehensive income	(5)
As at 31 December 2014	13
As at 1 January 2013	8
Increase in liabilities recognised in the statement of comprehensive income	10
As at 31 December 2013	18

33. SHARE CAPITAL

	31 December 2014 and 31 December 2013		
	Class ES Ordinary share	Class EP Preference shares	Total
Number of shares	447.760	60	447.820
Pair value (KM)	100	100	100
Total	44.776	6	44.782

Each registered ordinary share carries the right of one vote per share, while preference shares are non-voting.

Preference shareholders are entitled to receive dividends when declared, non-cumulatively, with priority rights over the ordinary shareholders in receipt of dividends.

The shareholding structure of the Bank as at 31 December 2014 and 31 December 2013 is as follows:

Intesa Sanpaolo Holding International S.A.	94,92%
Other	5,08%

34. SHARE-BASED PAYMENTS

In 2012 the Bank purchased 78,028 equity shares representing an interest in the capital of Intesa Sanpaolo SpA (the ultimate majority shareholder of the Bank). The purchase is related to the application of the remuneration policy for the Bank's employees and was accounted for according to the provisions of IFRS 2 Share Base Payments as a cash-settled shared-based payment transaction, insofar the transaction occurred between entities belonging to the same group.

During 2014, part of the shares have been transferred to the beneficiaries and as of 31 December 2014 the Bank has 31,211 equity shares of Intesa Sanpaolo SpA left in its portfolio of financial assets at Fair Value Through Profit and Loss (with fair value measured based on equity shares quotation on the Milan Stock Exchange).

The residual shares will be assigned to beneficiaries when vesting conditions are met.

(all amounts are expressed in thousands of KM, unless otherwise stated)

35. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

	31 December 2014	31 December 2013
Contingent liabilities		
Payment guarantees	28.322	25.331
Performance guarantees	42.032	37.124
Letters of credit	3.478	938
Total contingent liabilities	73.832	63.393
Commitments		
Undrawn lending commitments	149.251	130.403
Total commitments	149.251	130.403
Total contingent liabilities and commitments	223.083	193.796

36. RELATED-PARTY TRANSACTIONS

The Bank is a member of the Intesa Sanpaolo S.p.A Group ("Intesa Sanpaolo Group"). The key shareholder of the Bank is Intesa Sanpaolo Holding International S.A., holding 94.92% (2013: 94.92%) of the Bank's shares and the ultimate parent company is Intesa Sanpaolo S.p.A. The Bank considers that it has an immediate related-party relationship with its key shareholders and their subsidiaries; its associates; Supervisory Board members and Management Board members and other executive management ("key management personnel"); and close family members of key management personnel.

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

The overview of related party transactions as at 31 December 2014 and 31 December 2013 is presented below:

	31 December 2014	31 December 2013
Assets		
Receivables from key management personnel and their close family members	268	322
Bank accounts and loans – Intesa Sanpaolo Group	40.778	31.252
Financial assets at fair value through profit or loss – Intesa Sanpaolo Group	1	-
Other receivables – Intesa Sanpaolo Group	106	94
	41.153	**31.668**
Liabilities		
Deposits – key management personnel and their close family members	2.157	1.822
Borrowings and term deposits – Intesa Sanpaolo Group	60.576	59.662
Other liabilities – Intesa Sanpaolo Group	318	287
Financial liabilities at fair value through profit or loss – Intesa Sanpaolo Group	-	34
	63.051	**61.805**
Financial commitments and contingencies		
Undrawn lending commitments – Intesa Sanpaolo Group	1	502
Undrawn lending commitments – key managemen personnel and close family members	84	155
	85	**657**

(all amounts are expressed in thousands of KM, unless otherwise stated)

36. RELATED-PARTY TRANSACTIONS (CONTINUED)

	2014.	2013.
Income		
Interest income – key management personnel and close family members	15	36
Interest income – Intesa Sanpaolo Group	69	68
Other Income – Intesa Sanpaolo Group	72	40
	156	144

	2014.	2013.
Expenses		
Interest expense – key management personnel and close family members	80	118
Interest expense – Intesa Sanpaolo Group	735	1.508
Other expenses – Intesa Sanpaolo Group	3.372	3.118
	4.187	4.744

The remuneration of key management personnel were as follows:

	2014.	2013.
Net salaries for key management personnel	498	489
Taxes and contributions on net salaries	304	481
Bonuses to management	255	295
Compensation for Supervisory Board members	67	29
Other management benefits	193	91
	1.317	1.385

37. MANAGED FUNDS

The Bank manages assets on behalf of third parties. These assets are recorded separately from the Bank's assets.

	31 December 2014	31 December 2013
Liabilities		
Government organisations	8.714	8.971
Associations and Agencies	1.336	2.443
Banks and insurance companies	7.679	-
Other	430	433
Total	**18.159**	**11.847**
Assets		
Loans to companies	17.673	11.276
Loans to citizens	405	464
Total	**18.078**	**11.740**
Amounts due to original creditors – managed funds (Note 30)	81	107