BOR BANKA D.D. SARAJEVO

Financial statements for the year ended 31 December 2013 and Independent Auditor's report

CONTENTS

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Management Board is responsible for ensuring that financial statements are prepared for each financial period in accordance with International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board (IASB), which give a true and fair view of the state of affairs and results of BOR Banka d.d. Sarajevo („the Bank") for that period.

After making enquiries, the Management Board has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and must also; ensure that the financial statements comply with the Federation of Bosnia and Herzegovina Accounting and Audit Law. The Management Board is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board

BOR BANKA DD
I
SARAJEVO

Hamid Pršeš, Director

BOR Banka d.d. Sarajevo

Obala Kulina bana br. 18
71 000 Sarajevo
Bosnia and Herzegovina

6 February 2014

BAKER TILLY
RE OPINION

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Independent Auditor´s report

To the shareholders of BOR Banka d.d., Sarajevo:

We have audited the accompanying financial statements of BOR Banka d.d. Sarajevo („the Bank"), set out on pages 3 to 36 which comprise of the balance sheet (statement of financial position) as at 31 December 2013, and the income statement (statement of comprehensive income), statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and modified by the regulatory requirements prescribed by the Federal Banking Agency in Bosnia and Herzegovina. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2013, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Baker Tilly Re Opinion d.o.o.

Nihad Fejzić, Director and Certified Auditor

DRUŠTVO ZA REVIZIJU BAKER TILLY RE OPINION d.o.o. SARAJEVO

Lejla Kaknjo, Certified Auditor

Sarajevo, 6 February 2014

BOR BANKA D.D. SARAJEVO
INCOME STATEMENT – STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 BAM 000	2012 BAM 000
Interest income	6	12,997	13,035
Interest expense	7	(4,920)	(4,653)
NET INTEREST INCOME		**8,077**	**8,382**
Fee and commission income	8	1,706	1,745
Sale of financial assets available for sale		-	144
Expenses from investments sale cancelation	19	(144)	-
Fee and commission expense		(213)	(223)
NET FEE, COMMISSION AND OTHER FINANCE INCOME		**1,349**	**1,666**
Exchange rates, net		(147)	17
Other operating income	9	179	203
PROFIT FROM OPERATIONS		**9,458**	**10,268**
Personnel expenses	10	(2,483)	(2,374)
Depreciation expense	22	(664)	(556)
Other administrative expenses	11	(1,935)	(1,753)
PROFIT BEFORE IMPAIRMENT LOSSES, PROVISIONS AND TAXATION		**4,376**	**5,585**
Impairment of receivables and provisions	12	(3,630)	(2,760)
PROFIT BEFORE TAX		**746**	**2,825**
Income tax expense	13	(93)	(302)
NET PROFIT FOR THE YEAR		**653**	**2,523**
Profit per ordinary share	14	**1.93**	**13.46**

Statement of comprehensive income can be presented as follow:

	2013 BAM 000	2012 BAM 000
Net profit for the year	653	2,523
Other comprehensive income:		
Loss from investments in financial assets available for sale	(137)	(274)
Sale of financial assets	147	(56)
Subtotal:	***10***	***(330)***
Total comprehensive income for the year	**663**	**2,193**

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

BOR BANKA D.D. SARAJEVO
BALANCE SHEET – STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2013

	Note	31/12/2013 BAM 000	31/12/2012 BAM 000
Assets			
Cash and balances with banks	15	16,100	9,765
Obligatory reserve with Central Bank	16	21,454	24,856
Placements with other banks	17	23,666	19,439
Loans to customers, net	18	161,356	188,633
Financial assets available for sale	19	2,905	3,046
Financial assets held to maturity	20	299	300
Other assets, net	21	426	128
Tangible and intangible assets	22	18,991	18,850
Total assets		**245,197**	**265,017**
Liabilities			
Liabilities toward other banks and financial institutions	23	22,700	35,939
Liabilities toward Government of FB&H („Fund“)	24	39,947	35,577
Liabilities toward clients	25	133,679	143,894
Long term accruals	26	1,952	2,173
Other liabilities	27	343	299
Provisions for commitments and contingent liabilities	28	487	477
Total liabilities		**199,108**	**218,359**
Shareholder´s equity and reserves			
Shareholder's equity	29	29,166	29,166
Revaluation reserves		12,661	12,818
Investments revaluation reserve		(253)	(263)
Other reserves		10	10
Regulatory reserves for credit loss		1,465	1,465
Accumulated profit		3,040	3,462
Total shareholder´s equity		**46,089**	**46,658**
Total liabilities and equity		**245,197**	**265,017**

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

Signed on behalf of the Bank on 6 February 2014:

BOR BANKA DD SARAJEVO

Hamid Pršeš, Director

Enisa Hulusić, Executive director for accounting and treasury

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Share capital BAM 000	Revaluation reserves BAM 000	Fair value adjustment reserves BAM 000	Other reserves BAM 000	Regulatory reserves for credit loss BAM 000	Accumulated profit BAM 000	Total BAM 000
Balance as at 31 December 2011	**29,166**	**12,976**	**67**	**10**	**1,465**	**2,014**	**45,698**
Transfer from/to	-	(158)	-	-	-	158	-
Other comprehensive income	-	-	(330)	-	-	-	(330)
Dividend paid**	-	-	-	-	-	(1,233)	(1,233)
Net result for 2012	-	-		-	-	2,523	2,523
Balance as at 31 December 2012	**29,166**	**12,818**	**(263)**	**10**	**1,465**	**3,462**	**46,658**
Transfer from/to	-	(157)	-	-	-	157	-
Other comprehensive income	-	-	10	-	-	-	10
Dividend paid**	-	-	-	-	-	(1,232)	(1,232)
Net result for 2013	-	-	-	-	-	653	653
Balance as at 31 December 2013	**29,166**	**12,661**	**(253)**	**10**	**1,465**	**3,040**	**46,089**

* As of 31 December 2013, the regulatory reserves for credit loss amount to total of BAM 1,465 thousand, which corresponds to the initial balance as of 1 January 2011. In accordance with the requirements of regulator, the Bank has made calculation of insufficient regulatory reserves from net profit for estimated losses on balance and off-balance sheet items in the amount of BAM 3,493 thousand.

For reporting purpose, during 2013 the Bank used Methodology for calculation of impairment for loan losses, with latest modification on 26 December 2012. On 28 January 2014, The Supervisory Board has adopted a modified Methodology by which delay counter is reconciled with FBA instructions, dynamic ATR was implemented, restructured loans are recognized as default receivables, initial effective interest rate was used for discounted cash flows and movable property was excluded from collateral cash flows.
If the new accounting policy was applied at 31 December 2013, the impairment for credit losses would be higher by amount of BAM 713 thousand. After taking insight into impairment calculation under new Methodology as at 31 January of 2014, the effect of impairment change compared to 31 December 2013 is minimal and amounts to BAM 484 thousand.

Furthermore, during December 2013, in accordance with adopted accounting policy, Bank engaged independent appraiser who estimated fair value of building in amount of BAM 18,109 thousand. Increase in revaluation reserves in amount of BAM 1,114 thousand was not recorded based on suggestion of Federal Banking Agency.

** In accordance with the Bank Assembly decision as of 20 March 2013, dividend for 2012 was paid for preferential cumulative shares in the amount of BAM 172 thousand, for preferential non-cumulative shares in the amount of BAM 169 thousand and for ordinary (voting) shares in the amount of BAM 891 thousand.

In accordance with the Bank Assembly decision as of 15 March 2012, dividend for 2011 was paid for preferential cumulative shares in the amount of BAM 173 thousand, for preferential non-cumulative shares in the amount of BAM 169 thousand and for ordinary (voting) shares in the amount of BAM 891 thousand.

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

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 BAM 000	2012 BAM 000
Operating activities		
Profit before tax	746	2,825
Adjustments for:		
Depreciation	664	556
Net increase in impairment of receivables and provisions	3,630	2,760
Loss on disposal of assets and adjustments	18	12
Changes in assets and liabilities:		
Decrease/(increase) of receivables from Central bank B&H	3,402	(15,556)
Net (increase)/decrease of placements at banks	(4,244)	6,336
Net decrease/(increase) of loans to customers, before impairment	23,739	(40,373)
(Increase)/decrease of other receivables	(89)	23
Net (decrease)/increase of liabilities toward clients	(10,215)	50,473
Net changes in long term accruals	(221)	(215)
Increase/(decrease) of other liabilities	91	(27)
Cash from operating activities	**17,521**	**6,814**
Income tax paid	(349)	(322)
Net cash provided from operating activities	**17,172**	**6,492**
Investing activities		
Decrease/(increase) of assets available for sale	86	(903)
Decrease in assets held to maturity	1	1,730
Purchase of tangible and intangible assets	(823)	(313)
Net cash (used in)/provided from investing activities	**(736)**	**514**
Financing activities		
Repayment of borrowings	(13,239)	(6,117)
Increase of liabilities toward Government of B&H	4,370	3,454
Dividend paid	(1,232)	(1,233)
Net cash used in financing activities	**(10,101)**	**(3,896)**
Net increase in cash and cash equivalents	**6,335**	**3,110**
Cash and cash equivalents at the beginning of year	**9,765**	**6,655**
Cash and cash equivalents at the end of year	**16,100**	**9,765**

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

1. GENERAL

BOR Banka d.d. Sarajevo ("Bank") is registered 1995 in Federation of Bosnia and Herzegovina with address Obala Kulina Banka no. 18, 71000 Sarajevo, with a goal to support development and recovery process in Bosnia and Herzegovina.

The principal activity of the Bank is:
- Receiving and placing of deposits,
- Other services in accordance with Law,
- Foreign and foreign-currency payment transaction,
- Purchase and selling of securities,
- Emission of securities and cash cards,
- Issuing of guarantees, bill of exchange securities and other form of assurances,
- Performance of certain payment transactions,
- Maintenance and managing with assets and securities,
- Financial engineering transactions,
- Managing of finances,
- Expertise, diagnosis and restructuring,
- Receiving and placing loans,
- Other activities in accordance with registration.

In previous periods Bank had a ban on collection of deposits by the Federal Banking Agency due to specific contract with Kuwait Fund and outstanding capital ownership structure. Pursuant to the Law on Amendments to the Law on deposit insurance in B&H banks („Gazette of B&H No.: 75/09") the Bank has made amendments and changes of the Bank's Statute. By Decision No. 04-772/09 dated 30 March 2009 the Banking Agency of the FB&H approved Statute in part of deposit collection. After the inspection and received ranking status performed by FBA Agency the Bank, since November 2011 has permission and full membership status from Agency of deposit insurance of FB&H.

As of 31 December 2013 the Bank had 64 employees (31 December 2012; 62 employees).

Supervisory Board

Aziz Šunje	Chairmen
Ademir Abdić	Member
Hasan Đozo	Member
Hasen Mašović	Member
Hajrudin Hadžimehanović	Member

Audit Committee

Tihomir Ćurak	Chairmen
Senad Herenda	Member
Elma Oković - Badnjević	Member
Denis Lasić	Member
Senaid Zajimović	Member

Management Board

Hamid Pršeš	Director of Bank
Adela Zorlak	Executive director of sales department
Bedina Jusičić Musa	Executive director of risks management department
Enisa Hulusić	Executive director for accounting and treasury
Muhamed Šehbajraktarević	Executive director for legal, personnel and general services

Internal auditor of the Bank is Šefika Kreso.

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and Interpretations effective in current period

In the current year, the Company has adopted IFRS's which were effective for annual reporting period (effective for periods beginning in 1 January 2013 of after):

IFRS 1	First time adoption of International financial reporting standards (government loans applicable from 1 January 2013)
IFRS 1	First time adoption of International financial reporting standards (annual improvements to IFRS: repeated application of IFRS 1 - from 1 January 2013)
IFRS 1	First time adoption of International financial reporting standards (annual improvements to IFRS: borrowing costs - from 1 January 2013)
IFRS 7	Financial instruments: disclosures (offsetting financial assets and financial liabilities – from 1 January 2013)
IFRS 10	Consolidated financial statements (Applicable from 1 January 2013)
IFRS 11	Joint arrangements (Applicable from 1 January 2013)
IFRS 12	Disclosure of interest in other entities (Applicable from 1 January 2013)
IFRS 13	Fair value measurement (Applicable from 1 January 2013
IAS 1	Presentation of financial statements (annual improvements: clarification of the requirements for comparative information – applicable from 1 January 2013)
IAS 16	Property, plant and equipment (annual improvements: classification of servicing equipment – from 1 January 2013)
IAS 19	Employee benefits (pensions and other post-retirement benefits, in application since January 1 2013)
IAS 27	Separate financial statements (Applicable from 1 January 2013)
IAS 28	Investments in associates and joint ventures (Applicable from 1 January 2013)
IAS 32	Financial instruments: presentation (annual improvements: tax effect of distribution to holders of equity instruments – applicable from 1 January 2013)
IAS 34	Interim financial reporting (annual improvements: interim financial reporting and segment information for total assets and liabilities – applicable from 1 January 2013)
IFRIC 20	Stripping costs in the production phase of a surface mine (Applicable from 1 January 2013

2.2 Standards and Interpretations in issue not yet adopted

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue, but not yet effective:

IFRS 1	First-time adoption of International Financial Reporting Standards (eliminating the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs applicable to annual period beginning on after 1 January 2015)
IFRS 9	Financial instruments: Classification and measurement (effective date not yet defined)
IFRS 9	Amendments to IFRS 9 for accounting of financial liabilities (effective date not yet defined)
IAS 32	Financial instruments – presentations (Offsetting Financial assets and Financial liabilities (Applicable to annual periods beginning on after 1 January 2014)

Company will not adopt these standards, amendments and interpretations in advance, before the date they enter into force. Management anticipates that the adoption of these standards and interpretations in future periods will not significantly affect Company's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The Bank prepares financial statements in accordance with International Financial Reporting Standards (IFRSs). The financial statements have been prepared on the historical cost basis except for the revaluation of certain noncurrent assets and financial instruments. The principal accounting policies are set out below.

The financial statements are presented in thousands of Convertible mark (BAM'000) which is the functional currency of the Bank. The financial statements are prepared on an accrual basis of accounting, under the going concern assumption. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as at the reporting period date and actual results could differ from those estimates.

The Bank considers that it operates in a single business segment, and a single geographical segment, that is the provision of banking services in Bosnia and Herzegovina.

3.2 Interest income and expense

Interest income and expenses are recognized in the income statement (the statement of comprehensive income) for all interest yielding/bearing instruments on the accrued basis by the application of the effective interest rate method, i.e. according to the rate that discounts the estimated cash flows to the net present value during the term of the agreement. Such income and expenses are presented as interest and similar income and interest and similar expenses in the income statement (the statement of comprehensive income). Interest income and expenses also include income and expenses from loan fees and commissions and receivables from customers, or borrowings from banks, recognized on the basis of the effective interest rate.

The effective interest rate method is the method of calculation of amortized cost of the financial assets or financial liabilities and distribution of interest income or expenses in the appropriate time period. The effective interest rate is the rate that precisely discounts the estimated future cash disbursement or payment through the expected duration of the financial instrument or, where appropriate, a shorter period, on the net carrying value of financial assets or financial liabilities. When calculating the effective interest rate, the Bank performs an assessment of cash flows, taking into consideration all conditions of the agreement related to the financial instrument, but not considering the future loan losses. The calculation includes all fees and commission that the contractual sides have paid and received, and which are a constituent part of the effective interest rate, transaction costs and all other premiums and discounts.

3.3 Fee and commission income and expense

Fees and commissions consist mainly of fees earned on domestic and foreign payment transactions, and fees for loans and other credit instruments issued by the Bank. Fees for payment transactions are recognized in the period when services are rendered. Loan origination fees, after approval and drawdown of loans, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan over its life.

3.4 Employee benefits

On behalf of its employees, the Bank is paying pension and health insurance on and from salaries, as well as taxes. The Bank is paying the above contributions into the Pension and health funds of the Federation of Bosnia and Herzegovina, as per the set legal rates during the course of the year on the gross salary paid. In addition, meal allowances, transport allowances and vacation bonuses are paid in accordance with the local legislation. These expenses are recorded in the income statement in the period in which the salary expense is incurred.

3.5 Retirement severance payments

In accordance with local legislation, Bank allow severance payments as minimum six salaries paid in past months or six average salaries in Federation of Bosnia and Herzegovina for past month, depending on what is suitable for employee.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Retirement severance payments (continued)

The cost of providing benefits is determined using the Projected Unit Credit Method. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested. The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost.

3.6 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax expense is based on taxable income for the year. Taxable income differs from net income as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting period date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting period date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Bank has the ability and intention to settle on a net basis. The Bank is subject to various indirect taxes which are included in administrative expenses.

3.7 Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash, balances with the Central Bank („CBBH'), current accounts with other banks and cash at hand.

Cash and cash equivalents excludes 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 CBBH is a required reserve to be held by all commercial banks licensed in Bosnia and Herzegovina.

3.8 Financial assets

Financial assets are classified into the following specified categories: loans and receivables', available-for-sale (AFS) and other financial liabilities. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. Mentioned assets appear where Bank transfers cash towards debtor without attention of active trade with receivables. Loan and receivables includes bank and other client's loans and receivables.

Available for sale financial assets are any non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified in other category of financial instruments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial assets (continued)

Available for sale financial assets represents assets that are acquired with intention of holding assets for indefinite time and possibility of sale in case of liquidity requirements, changes in interest rates, foreign exchange rates and prices of equity securities. Available for sale financial assets includes debt and equity securities. Other financial liabilities represent all financial liabilities that are not classified as financial liabilities through profit and loss, including current and deposit accounts and borrowings.

Recognition
Loans and receivables and other financial liabilities are recognized when advanced to borrowers or received from lenders. The Bank recognizes available for sale financial assets at the trade date.

Measurement
(a) Loans and receivables
Loans and receivables are initially recognized at fair value. After initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment.

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

(c) Other financial liabilities
Other financial liabilities are initially measured at fair value. Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest rate method.

Recognition of gains and losses on subsequent measurement of financial instruments
Gains and losses from a change in the fair value of available-for-sale financial assets are recognised directly in the fair value reserve within equity until derecognition or impairment, when the cumulative amount previously recognised in equity is transferred to the statement of comprehensive income. Interest income calculated using the effective interest rate method is recognised in the statement of comprehensive income.

Foreign exchange gains and losses on available for sale equity securities represent a part of the fair value of these instruments and are recognized in equity. Dividend income on available for sale equity securities is recognized in the statement of comprehensive income when the right to receive payment has been established.

Impairment of financial assets
The Bank reviews financial assets at each reporting date to determine whether there is objective evidence of impairment. The impairment of financial assets or a group of financial assets is recognized if there is objective evidence of impairment as the result of one or more events occurring after initial recognition, which has an influence on estimated future cash flows from the financial assets or the group of financial assets, which can be reliably estimated ("an event that causes the impairment").

1) Loans and receivables
The Bank regularly reviews and monitors loans and receivables as well as other financial assets at each reporting date to determine whether there is objective evidence of impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial assets (continued)

1) Loans and receivables (continued)
If there is objective evidence of impairment of loans and receivables on an individual basis, the impairment loss is determined as the difference between the carrying value of the assets and the present value of the expected future cash flows discounted by the original effective interest rate of the financial assets. The carrying value of the assets is decreased by the amount of impairment allowance, and the amount of the loss is recognized in the statement of comprehensive income. If loans and receivables have a variable interest rate, the discount rate for determining impairment allowance represents the initially agreed effective interest rate determined by an agreement at the moment when impairment has occurred.

Financial assets for which no impairment was recognised on an individual basis, is grouped with other financial assets with similar characteristics, which are then reviewed for impairment on a group basis. Group impairment also includes impairment on a portfolio basis (IBNR) in cases where the (on an individual or group basis) determines that there is no objective evidence of impairment. If the loan cannot be collected and all legal procedures have been completed and the final amount of the loss is known, the loan is directly written off. If, in the subsequent period, the amount of impairment loss decreases and the decrease can be directly linked to an event that has occurred after the write-off, the amount written-off or the impairment allowance is then shown as income in the statement of comprehensive income. Write-off of uncollectible receivables is performed based on the decision of the Supervisory Board, and in accordance with court decisions, agreements between the interested parties and the Bank's assessments. In accordance with local regulations the Bank also calculates impairment loss in accordance with FBA Regulations.

Loans, placements and other financial assets of the Bank are classified into categories prescribed by the BARS according to the expected recoverability determined on the basis of the number of days overdue, an assessment of the debtor's financial position and the quality of the collateral. The assessed amount of the reserve for potential losses is calculated by applying percentages prescribed by the FBA. If the specific provision for potential losses calculated in accordance with BARS regulations is higher than the impairment allowance calculated in accordance with IFRS requirements, this difference is presented as a regulatory reserve for credit losses within equity based on a decision of the Bank's General Assembly and in accordance with accounting regulations of the Federation of Bosnia and Herzegovina.

2) Available for sale financial assets
At each reporting date, the Bank reviews whether there is objective evidence of impairment of individual financial assets or groups of financial assets.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any such evidence exist the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and reserves and recognised in profit or loss. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income at any point thereafter. 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 statement of comprehensive income.

Derecognition
A financial asset is derecognised (in full or in part) when the Bank loses control over the contractual rights on the asset. This occurs when the rights are realised, expire or are surrendered. Available for sale financial assets are derecognized on the trade date.

Loans and receivables and other financial liabilities are derecognized at the date that they are transferred by the Bank or when the liability ceases to exist. The Bank derecognises financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial assets (continued)

Derecognition (continued)
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 principles
The fair value of exchange-traded derivatives is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Specific instruments
a) Financial derivatives
Financial derivatives include foreign exchange forward and swap contracts. Financial derivatives are initially recognized and subsequently measured at their fair value in the statement of financial position. Fair values are obtained by application of various assessment techniques, including discounted cash flow models. All derivatives are presented 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. Changes in the fair value of financial derivatives are recorded as gains or losses.

b) Cash and cash equivalents
Cash and cash equivalents include: cash, cheques sent for collection, current accounts with other banks and cash deposited with the Central Bank (not including the amount of the obligatory reserve).

c) Placements with and loans to banks
Placements with and loans to banks are classified as loans and receivables and are carried at amortization cost less any impairment losses.

d) Loans to customers
Loans to customers are presented net of impairment allowance to reflect the estimated recoverable amounts.

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

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

g) Transaction accounts and deposits from banks and customers
Transaction accounts and deposits are classified as other liabilities and are initially recognized at fair value less transaction costs, and subsequently stated at their amortised cost using the effective interest rate method.

h) Borrowings
Interest bearing borrowings are classified as other financial liabilities and are initially measured at fair value less transaction costs, and subsequently stated at their amortised cost using the effective interest rate method.

3.9 Financial liabilities and equity instruments issued by Bank

Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Financial liabilities and equity instruments issued by Bank (continued)

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

Financial guarantee contract liabilities
Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37: „Provisions, Contingent Liabilities and Contingent Assets"; or
- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out at above.

Financial liabilities
Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. The Bank creates one category of financial liabilities, for which basis of accounting is disclosed below.

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities
The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

3.10 Property and equipment
Property and equipment are stated at cost or its revalue amount less accumulated depreciation and any accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged.

A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Initially, property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacement of assets are capitalised. Gains or losses on the retirement or disposal of property, plant and equipment are included in the income statement in the period they occur.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Property and equipment (continued)
Properties in the course of construction are carried at cost, less impairment loss, if any. Depreciation commences when the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the estimated useful life of the applicable assets.

Estimated depreciation rates were as follows:

Buildings	1.3% (till 77 years)
Computers	33% (till 3 years)
Furniture and other office equipment	7% - 20% (from 5 to14 years)

3.11 Intangible assets
Intangible assets are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

3.12 Foreign currency translation
Transactions in currencies other than Bosnia and Herzegovina BAM 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 period 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 year.

The Bank values its assets and liabilities by middle rate of Central Bank of Bosnia and Herzegovina valid at the date of balance sheet, which approximate market rates. The principal rates of exchange set forth by the Central Bank and used in the preparation of the Bank's balance sheet at the reporting dates were as follows:

31 December 2013 1 EUR = 1.95583 BAM 1 USD = 1.419016 BAM
31 December 2012 1 EUR = 1.95583 BAM 1 USD = 1.483600 BAM

For the financial assets and liabilities denominated in KWD, the Bank use Kuwait National Bank rate.

31 December 2013 1 KWD = 4.961 BAM
31 December 2013 1 KWD = 5.163 BAM

3.13 Provisions
Provisions are recognized when the Bank has a present obligation as a result of a past event, and it is probable that the Bank will be required to settle that obligation. Management Board estimates the provisions based at the best estimate of expenditure to settle the Bank's obligation. Provisions are discounted to present value where the effect is material.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies, which are described in Note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property and equipment

As described at Note 3 above, the Bank reviews the estimated useful lives of property and equipment at the end of each annual reporting period.

Fair value of derivatives and other financial instruments

As described in Note 33, the Management use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial instruments, other than loans, are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates.

5. GLOBAL MARKET CRISIS

The Bank was impacted by the recent financial crisis and deteriorating economic conditions. Due to the current global crisis in the market and its effects on the local market in Bosnia and Herzegovina, the Bank will probably still operate in difficult and uncertain economic environment in 2014. The impact of this crisis on the Bank's business operations is currently not possible to fully predict and therefore there is an element of general uncertainty.

So far, the on-going financial crisis has had some impact on the financial position and performance of the Bank, mainly in the amount of additional loan provisions recognized in the income statement for the year ended 31 December 2013. The Bank monitors closely the credit, liquidity, interest rate and foreign exchange risks on a regular basis. The deteriorating economic situation in the country will probably impact the position of certain industries and the abilities of some clients to meet their loan obligations. This may consequently influence the amount of the Bank's provisions for impairment losses in 2014 and other areas that require estimates to be made by Management. Furthermore, prolonged influence of the economic crisis may have a further negative impact on the real estate market, impact on the value of instruments which the Bank use as collateral and consequently further loan impairment.

These financial statements contain significant estimates with respect to impairment charges, collateral valuation and the securities fair value. Actual results may differ from these estimates. The key priorities of the Bank in 2014 will be attention to management of the financial portfolio adjusting to the changing economic environment, new and quality long-term financing sources and increasing the Bank's market share.

6. INTEREST INCOME

	2013 BAM 000	2012 BAM 000
Legal entities (economy)	10,770	11,205
Individuals	1,338	1,201
Interests on impaired loans (penalty interest)	612	348
Amortization of discount (Note 26)	221	215
Placement with foreign banks	24	36
Interest from financial assets held to maturity	19	22
Placement with domestic banks	10	5
The Central bank of B&H (on compulsory reserve)	3	3
Total	**12,997**	**13,035**

7. INTEREST EXPENSE

	2013 BAM 000	2012 BAM 000
Interest on deposits from companies	3,407	2,852
Interests on Government funds	717	656
Interests on other credit assets	434	823
Interest on deposits from individuals	362	322
Total	**4,920**	**4,653**

8. FEE AND COMMISSION INCOME

	2013 BAM 000	2012 BAM 000
Fees from payment transactions	1,044	1,102
Fees from off balance sheet transactions	494	436
Commission transactions	128	153
Fees from conversion transactions	34	49
Other fees	6	5
Total	**1,706**	**1,745**

9. OTHER OPERATING INCOME

	2013 BAM 000	2012 BAM 000
Income from heating services and rent	156	159
Other income	23	44
Total	**179**	**203**

10. PERSONNEL EXPENSES

	2013 BAM 000	2012 BAM 000
Net salaries	1,267	1,215
Taxes and contributions	806	749
Meal allowance and transportation costs	244	225
Other	166	185
Total	**2,483**	**2,374**

11. OTHER ADMINISTRATIVE EXPENSES

	2013 BAM 000	2012 BAM 000
Professional services	432	391
Advertising and entertaining	228	222
Energy costs	133	150
Supervisory Board and Audit Committee fees	113	114
Maintenance	110	88
Material and small inventories costs	70	93
Court and administrative taxes	67	114
Other costs	782	581
Total	**1,935**	**1,753**

12. IMPAIRMENT OF RECEIVABLES AND PROVISIONS

	2013 BAM 000	2012 BAM 000
Impairment of loan receivables (Note 18)	3,538	2,543
Impairment of investments (Note 19)	65	-
Increase in impairment for possible losses on placements in banks (Note 17)	17	79
Increase in provision for possible losses in commitments and contingencies (Note 28)	10	138
Total	**3,630**	**2,760**

13. INCOME TAX

	2013 BAM 000	2012 BAM 000
Income before tax	**746**	**2,825**
Non-deductible expenses	179	193
Taxable income	**925**	**3,018**
Tax at the domestic income tax rate of 10%	93	302
Tax expense for the year	**93**	**302**
Effective tax rate	**12.47**	**10.69**

14. EARNINGS PER SHARE

	2013 BAM 000	2012 BAM 000
Net profit	653	2,523
Less: Dividends on preferred shares	(341)	(342)
Subtotal:	*312*	*2,181*
Weighted average number of ordinary shares outstanding (000)	162	162
Basic earnings per ordinary share in BAM	**1.93**	**13.46**

15. CASH AND BALANCES WITH BANKS

	31/12/2013 BAM 000	31/12/2012 BAM 000
Current account with the Central Bank of Bosnia and Herzegovina	15,452	9,133
Cash on hands, vault and ATM in domestic currency	454	353
Cash in vault in foreign currency	194	279
Total	**16,100**	**9,765**

16. OBLIGATORY RESERVE WITH THE CENTRAL BANK

	31/12/2013 BAM 000	31/12/2012 BAM 000
Obligatory reserve	11,342	10,445
Specific reserve by Law on banks, article 42 a.(Note 25)	10,112	14,411
Total	**21,454**	**24,856**

Minimum obligatory reserve is calculated as a percentage of the average amount of total deposits and borrowings for each working day during 10 calendar days following the period of maintaining the obligatory reserve. The rates of minimum obligatory reserve were 10% of total short-term deposits and borrowings and 7% of total long-term deposits and borrowings.

In accordance with Law on banks (article 42 a.), the Bank is obliged to hold 50% of daily balance of received payments from public funds, deposits and transactions for budgetary and off budgetary funds in cash as specific reserve in Central Bank. This refers to funds and transactions of customers Agencija za vodno područje rijeke Save, Municipal of Stari Grad, Municipal of Centar, Municipal of Novo Sarajevo, Government of Brčko District and Federalni zavod za penzijsko – invalidsko osiguranje and 50% of these funds amounted to BAM 10,112 thousand as of 31 December 2013.

Average interest rate on assets kept up to minimum obligatory reserve within the Central Bank was 0.028%, and for the amount held at accounts of Central Bank of Bosnia and Herzegovina above the obligatory reserve interest rate was 0.036%. Cash held at the obligatory reserve account with the Central Bank of Bosnia and Herzegovina is not available for daily operations without specific approval from the Central Bank of Bosnia and Herzegovina and FBA.

17. PLACEMENTS WITH OTHER BANKS

	31/12/2013 BAM 000	31/12/2012 BAM 000
Loans:		
Banka Srpske a.d. Banja Luka (Balkan Investment Bank a.d.)	2,551	3,299
Demand deposits in foreign currency:		
Deutsche Bank AG, Germany	7,591	6,269
Raiffeisen Zentralbank AG, Austria	2,355	819
Zagrebačka banka d.d., Croatia	2,174	1,179
National Bank of Kuwait	2,021	1,790
KBC Brussels, Belgium	1,316	898
Nova Ljubljanska banka d.d., Slovenia	1,185	324
AHLI United Bank London, United Kingdom	52	48
Subtotal:	**16,694**	**11,327**
Demand deposits in local currency:		
Sparkasse bank d.d. Sarajevo	13	38
Term deposits in foreign currency:		
Zagrebačka banka d.d., Croatia	2,113	2,360
AHLI United Bank London, United Kingdom	1,736	1,807
Nova Ljubljanska banka d.d., Slovenia	710	742
Subtotal:	**4,559**	**4,909**
Term deposits in domestic currency:		
Sparkasse bank d.d. Sarajevo	25	25
Total placements before impairment	**23,842**	**19,598**
Impairment for bank placements:	**(176)**	**(159)**
Total	**23,666**	**19,439**

Annual interest rates for foreign currency placements may be presented as follows:

	2013 BAM 000	2012 BAM 000
	In % annually	**In % annually**
Placements in EUR	0.08 – 0.31	0.10 – 0.40
Placements in USD	0.10 – 0.64	0.12 – 0.20
Placements in KWD	0.15 – 1.68	0.10 – 0.50

Changes in impairment for placements with banks may be presented as follows:

	2013 BAM 000	2012 BAM 000
Balance at the beginning of the period	**159**	**80**
Increase in impairment (Note 12)	111	93
Decrease in impairment (Note 12)	(94)	(14)
Total	**176**	**159**

18. LOANS TO CUSTOMERS, NET

	31/12/2013 BAM 000	31/12/2012 BAM 000
Short-term loans:		
Legal entities	42,100	73,440
Individuals	774	371
Current portion of long-term loans	28,708	23,764
Subtotal:	***71,582***	***97,575***
Long-term loans:		
Legal entities	120,659	113,884
Individuals	18,550	18,904
Current portion of long-term loans	(28,708)	(23,764)
Subtotal:	**110,501**	**109,024**
Total loans before impairment	182,083	206,599
Impairment for loans	(20,727)	(17,966)
Total	**161,356**	**188,633**

Bank signed two purchase contracts with Privredna Banka Sarajevo d.d. Sarajevo and Ministry of Finance of FB&H. Discount that represent difference between nominal value of portfolio and cashless reconciliation (payments) will be recognized as interest income at maturity, based on individual repayment of separate loans (Note 26).

Short-term loans are approved on period from 1 to 365 days. Majority of short-term loans in domestic currency have been approved to customers for working capital. Long-term loans mostly have been approved to legal entities for different investment activities and for working capital.

Changes in impairment of loan receivables may be presented as follows:

	2013 BAM 000	2012 BAM 000
Balance at the beginning of the period	**17,966**	**15,930**
Increase in impairment (Note 12)	17,037	12,509
Decrease in impairment (Note 12)	(13,499)	(9,966)
Cancellation of impairment due to write off	(456)	(178)
Exchange rate differences	(321)	(337)
Transfer from/to (Note 21)	-	8
Total	**20,727**	**17,966**

18. LOANS TO CUSTOMERS, NET (CONTINUED)

Analysis of loans before impairment by industry:

	31/12/2013 BAM 000	31/12/2012 BAM 000
Trade	43,703	50,700
Agriculture, forestry, mining and energetic	41,331	57,062
Building industry	20,341	14,616
Individuals	19,324	19,275
Transportation and telecommunications services	19,297	15,534
Services, finances, sport and tourism	8,704	16,316
Administrative and other public institutions	6,853	8,948
Other	23,381	25,009
Less: Deferred fees	(851)	(861)
Total	**182,083**	**206,599**

Weighted average interest rate is presented as follows:

	31/12/2013		31/12/2012	
	BAM 000	Annual interest rate %	BAM 000	Annual interest rate %
Legal entities	162,759	2 – 10	187,324	3.72 – 10
Individuals	19,324	2.85 – 10.9	19,275	2.85 – 10.9
Total:	**182,083**		**206,599**	

19. FINANCIAL ASSETS AVAILABLE FOR SALE

	% ownership	31/12/2013 BAM 000	31/12/2012 BAM 000
Privredna banka Sarajevo d.d. Sarajevo	9.09	2,261	3,043
Privredna banka Sarajevo d.d. Sarajevo (VI issue of shares)*	-	647	-
Registry of securities of the Federation Bosnia and Herzegovina	2.75	59	-
Bamcard d.d. Sarajevo	0.10	3	3
		2,970	3,046
Impairment		(65)	-
Total		**2,905**	**3,046**

At the date of financial statements, the Bank measured its financial assets at fair value. For the purposes of fair value measurement of investments in shares of Privredna banka Sarajevo d.d. Sarajevo (except for amounts paid for VI issue of shares) and Bamcard d.d. Sarajevo, the Bank used price lists of Sarajevo stock exchange d.d. Sarajevo. In accordance with above-mentioned, the Bank used inputs of hierarchy Level 1 for fair value measurement in accordance with requirements of IFRS 13 – Fair value measurement.

19. FINANCIAL ASSETS AVAILABLE FOR SALE (CONTINUED)

* During the year 2013, the Bank received Decision from Banking Agency of the Federation of Bosnia and Herzegovina with written order, dated 2th September 2013, in which it is prescribed that leader of Ortačka grupa X-25 (BOR banka d.d. Sarajevo), together with other members of the partnership group which participated in VI issue of shares of bank, should start activities on cancellation of respective issue, due to violation of article no. 20 of Law on banks. Analogously, during the year 2013 the Bank recorded expenses in amount of BAM 144 thousand, which relates to cancellation of positive effects of sale of shares of VI issue made during the year 2012. The rest of shares of VI shares issue were separately stated and valued given that regular trading with this asset is limited. In accordance with mentioned, the Bank made additional impairment in amount of BAM 65 thousand, for the purposes of fair and real presentation of financial statements.

Also, for the purposes of fair value measurement of investments in shares of Registry of Securities of the Federation Bosnia and Herzegovina, the Bank used the best information available in the circumstances, taking into account all information and assumptions on value, which were available in considered period. Accordingly, for the above mentioned case, the Bank used inputs of hierarchy Level 3 inputs in accordance with requirements of IFRS 13 – Fair value measurement.

Changes in impairment for financial assets available for sale may be presented as follows:

	2013 BAM 000	2012 BAM 000
Balance at the beginning of the period	-	-
Increase in provision (Note 12)	65	-
Total	**65**	**-**

20. FINANCIAL ASSETS HELD TO MATURITY

In accordance with Decision of Management, dated 26th June 2012 the Bank purchased Federal Government Bonds issued in accordance with Public note number 08-14-2046-2/12 dated 14th June 2012. Nominal value of one bond is BAM 100, interest rate is 6.10%, and maturity date is 27th June 2017.

21. OTHER ASSETS, NET

Structure of other receivables may be presented as follows:

	31/12/2013 BAM 000	31/12/2012 BAM 000
Prepaid income tax	209	-
Prepaid expenses	110	90
Other assets	107	38
Total	**426**	**128**

Changes in impairment for other assets may be presented as follows:

	31/12/2013 BAM 000	31/12/2012 BAM 000
Balance at the beginning of the period	-	8
Transfer from/to (Note 18)	-	(8)
Total	**-**	**-**

22. TANGIBLE AND INTANGIBLE ASSETS

	Land BAM 000	Buildings BAM 000	Equipment BAM 000	Software BAM 000	Investment in progress BAM 000	Total BAM 000
Cost						
At 31 December 2011	**425**	**18,090**	**1,950**	**769**	**195**	**21,429**
- additions	-	-	191	103	19	313
- disposals	-	-	(109)	-	-	(109)
- transfer from/to	-	-	69	132	(201)	-
At 31 December 2012	**425**	**18,090**	**2,101**	**1,004**	**13**	**21,633**
- additions	-	13	278	112	420	823
- disposals	-	-	(118)	(3)	-	(121)
- transfer from/to	-	-	79	-	(79)	-
At 31 December 2013	**425**	**18,103**	**2,340**	**1,113**	**354**	**22,335**
Accumulated depreciation						
At 31 December 2011	**-**	**638**	**1,071**	**615**	**-**	**2,324**
- depreciation for year 2012	-	235	240	81	-	556
- disposals	-	-	(97)	-	-	(97)
At 31 December 2012	**-**	**873**	**1,214**	**696**	**-**	**2,783**
- depreciation for year 2013	-	235	288	141	-	664
- disposals	-	-	(100)	(3)	-	(103)
At 31 December 2013	**-**	**1,008**	**1,402**	**834**	**-**	**3,344**
Net carrying amount						
31 December 2013	**425**	**17,095**	**938**	**279**	**354**	**18,991**
1 January 2013	**425**	**17,217**	**887**	**308**	**13**	**18,850**

23. LIABILITIES TOWARDS BANKS AND OTHER FINANCIAL INSTITUTIONS

	Interest rate (p.a.)	31/12/2013 BAM 000	31/12/2012 BAM 000
Ministry of Finance of FB&H (Foundation for sustainable development)	6-month Euro LIBOR+1%	14,587	24,265
Kuwait Fund for Arabian economic development (KFAED)	2%	8,113	11,674
		22,700	35,939
Maturity of liabilities may be presented as follows:			
In first year		5,977	6,843
In second year		5,973	6,886
In period from 3 to 5 years		7,222	14,244
After 5 years		3,528	7,966
Total		**22,700**	**35,939**

On 30 April 1997, Bank signed Loan Agreement with Kuwait fund for Arabic economic development (KFAED) in amount of KWD 6,100,000 with interest rate 1.5% and 0.5% other costs annually. Up to 31 December 2008, Bank has signed 4 amendments on loan agreement. The purpose of loans is financing of small and medium legal entities with maturity up to 7 years and with interest rate from 7.5% to 9.5% till 30 June 2006 and after that date from 7% - 9% annually. Government of Federation of Bosnia and Herzegovina is guarantor of executing Bank liabilities toward KFAED in accordance with guarantee contract approved by Federal Parliament, Decision number 20/99 dated on 21 July 1999 („Official Gazette FB&H", number 38/99). Due to neccessary changes in ownership' structure related to decrease of state ownership in Bank, Bank's Supervisory Board and KFAED Board of directors had approved Memorandum of understanding dated on 14 November 2008, under which Bank started with accelerated repayments of loan 516, and new loan withdrawals from Kuwait credit line have been suspended. Principal should be repaid in KWD in 14 unequal semi-annual instalments beginning on 15 January 2009 and with maturity on 15 January 2016.

23. LIABILITIES TOWARDS BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

On 27 September 2010 the Bank signed subordinated contract with Ministry of Finance in FB&H and Sustainable Development Foundation (ODRAZ). Initially, funds have been approved by World Bank for project of improving finance accessibility to small and medium legal entities. Repayment of funds is reconciled with collection of approved loans to final customers (maximum granted period of 120 months). During the year 2011 and 2012 the Bank approved 25 loans to legal entities in accordance with loan terms defined by ODRAZ, and where interest rate of loans ranged from 6-month Euro Libor + 4.5% to 5.5%. As of 30 December 2013, the Bank signed new subordinated contract with Ministry of Finance in FB&H and Sustainable Development Foundation (ODRAZ), for the Project – Improving finance accessibility to small and medium legal entities, with final date for withdrawal of funds as of 31 July 2016 and annual interest rate of 6-months Euro Libor + 1%.

24. LIABILITIES TOWARD GOVERNMENT OF FB&H („FUND“)

Based on agreement from 1 March 2005, between Council of Ministry of B&H and the Entity's Governments, the Bank signed on 22 August 2005 „Agreement for permanent fund managing“ with Ministry of Finance of Federation of Bosnia and Herzegovina (Ministry) that is amended on 31 August 2007. In accordance with Agreement, Bank suffers credit risk for loans granted from fund and calculates annual interest rate of 2%. As of the date of this report, no actual interest payments have been made. Therefore, the credit balance is increased because of accrued interest. In accordance with the Contract, the value of the Fund is increased till 28 February next year, for the amount of accrued interest. Under the Contract, the same is valid until Bank has FBA licence and is doing its business in accordance with regular bank procedures. As of 18th January 2012 and in accordance with Decision of Federal Government, the Government paid in Fund from budget of Federation of B&H the amount of BAM 3 million (payment for Japanese grant). As of 11 March 2013, increase in Fund in amount of BAM 4 million has been made in accordance with Decision of Government of Federation of B&H (Japanese grant – 2 KR).

25. LIABILITIES TOWARDS CLIENTS

	31/12/2013 BAM 000	31/12/2012 BAM 000
Demand deposits:		
Individuals:		
In domestic currency	5,702	1,773
In foreign currency	3,552	727
	9,254	2,500
Legal entities:		
In domestic currency	55,253	60,570
In foreign currency	4,338	3,192
	59,591	63,762
	68,845	***66,262***
Term deposits:		
Individuals:		
In domestic currency	4,141	2,946
In foreign currency	5,933	4,646
	10,074	7,592
Legal entities:		
In domestic currency	48,699	55,615
In foreign currency	6,061	14,425
	54,760	70,040
	64,834	**77,632**
Total	**133,679**	**143,894**

Interest rate on demand deposits in domestic currency is 0.1% (2012-0.1%), respectively 0.1% (2012-0.1%) on demand deposits in foreign currency, unless otherwise stipulated by the contract. Interests on short-term deposits in 2013 had been in range from 1.9% to 5.60% (in 2012 1.90%-6.00%). In 2013, interest rates on long-term term deposits and deposits used as collaterals had been in range from 1% to 5.7%, respectively during 2012 from 2.5% to 5.7%.

Interest rates on demand deposits in BAM and in foreign currency for individuals are 0.1%. Interest rates on short-term deposits for individuals and in EUR currency had been in range from 1.53% to 4.8%, and for USD currency from 2.9% to 3.1% until February 2012, when Bank ceased to deposit in USD. In 2013 interest rates on long-term deposits in BAM and EUR currency were 2.25% to 4.80%. Special annual interest rates on long-term deposits for individuals in all currencies were from 3.5 % to 5%.

Since November 2011, the Bank has licence from Agency for deposit insurance of FB&H.

26. LONG TERM ACCRUALS

	31/12/2013 BAM 000	31/12/2012 BAM 000
Accrued income from repurchased loans (discount) – Ministry of Finance of FB&H /Željezara Zenica	1,163	1,211
Accrued income from repurchased loans (discount) – PBS	758	921
Accrued income – Fenix d.o.o. Kladanj	30	41
Total	**1,952**	**2,173**

27. OTHER LIABILITIES

	31/12/2013 BAM 000	31/12/2012 BAM 000
Deferred income	247	81
Provision (IAS 19)	46	23
Trade payables	37	42
Managed funds difference (Note 32)	6	15
Liabilities for employee benefits	-	85
Income tax liability, net	-	47
Other liabilities	7	6
Total	**343**	**299**

28. PROVISION FOR COMMITMENTS AND CONTINGENT LIABILITIES

	2013 BAM 000	2012 BAM 000
Balance at the beginning of the period	**477**	**339**
Increase of provision (Note 12)	892	1,034
Decrease of provision (Note 12)	(882)	(896)
Balance at the end of the period	**487**	**477**

29. SHAREHOLDER'S EQUITY

	31/12/2013 BAM 000		31/12/2012 BAM 000	
	Number of shares	Ownership in %	Number of shares	Ownership in %
Ordinary shares:				
ZIF "Naprijed" d.d. Sarajevo	15,686	9.68	15,718	9.70
Hamid Pršeš	14,230	8.78	11,372	7.02
TV mreža d.o.o. Sarajevo	14,196	8.76	-	-
Pobjeda – Rudet d.d. Goražde	12,316	7.60	12,316	7.60
Fond "Bošnjaci"	8,496	5.24	8,496	5.24
Hypo Alpe Adria Bank d.d. Mostar	8,274	5.11		
Koprom Handelsgesellschaft M.B.H.	7,788	4.81	5,766	3.56
Denge Yatirim Holding, Turkey	7,442	4.59	-	-
Privredna banka Sarajevo d.d. Sarajevo	-	-	23,100	14.26
Other (under 5% of ownership)	73,586	45.43	85,246	52.62
Total:	**162,014**	**100.00**	**162,014**	**100.00**
Preferred shares:				
RTM – TV1 d.o.o. Mostar	23,490	-	23,490	-
ZIF CROBIH FOND d.d. Mostar	12,400	-	12,400	-
Mušović Zijad	11,845	-	11,880	-
Privredna banka Sarajevo d.d. Sarajevo	11,006	-	11,016	-
Hamid Pršeš	5,595	-	-	-
Others	38,796	-	44,346	-
Total:	**103,132**	**-**	**103,132**	**-**
Total shareholder's equity of the Bank:	**265,146**	**100.00**	**265,146**	**100.00**

29. SHAREHOLDER'S EQUITY (CONTINUED)

On 31 December 2013 and 2012 the nominal value of all shares is BAM 110. The owners of preferred shares do not have guaranteed right to dividends. However, if dividend is declared, they have priority in actual receipt of dividend payments over ordinary shareholders. Preference shareholders also have preferential rights to return capital in case of liquidation.

The Bank considers that it operates in a single business segment, and a single geographical segment, that is the provision of banking services in Bosnia and Herzegovina. The Bank's shares are traded at the Sarajevo stock exchange (SASE).

30. COMMITMENTS AND CONTINGENT FINANCIAL LIABILITIES

Within regularly business activities, the Bank is participant in several court proceedings under refund of assets based on insurance instruments or not collected loan receivables, that includes interest and doubtful receivable costs from bank customers, as the other banks. The Management believes that pending court proceedings on 31 December 2013 will not have any significant losses for the Bank as consequence.

	31/12/2013 BAM 000	31/12/2012 BAM 000
Contingent liabilities		
Payable guarantees	10,100	11,330
Obligation guarantees	5,969	8,465
Total contingent liabilities	**16,069**	**19,795**
Commitments		
Unutilized approved loans	5,600	2,699
Framework agreements (risk free assets)	37,640	20,772
Total commitments	**43,240**	**23,471**
Total commitments and contingent financial liabilities	**59,309**	**43,266**

31. RELATED-PARTY TRANSACTIONS

Related parties, as defined by IAS 24, are those counter parties that represent:

- enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);
- associates – enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;
- key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and
- enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

During analysing of each possible transaction with related party, attention is on essence of relationships not only on legal form.

31. RELATED-PARTY TRANSACTIONS (CONTINUED)

	31/12/2013 BAM 000	31/12/2012 BAM 000
Receivables		
Loans approved to shareholders with over 5% of ownership	2,179	924
Loans approved to personnel and their family members	1,587	1,638
Loans approved to Supervisory Board , Audit Committee and their family members	79	77
	3,845	2,639
Investments		
Privredna banka Sarajevo d.d. Sarajevo	2,844	3,043
Treasury notes (Ministry of finance FB&H)	-	300
	2,844	3,343
Liabilities		
Deposits of persons associated with the Bank and their family members (Management, Supervisory Board , partners and shareholders with over 5%)	4,464	539
Ministry of Finance FB&H	-	35,578
	4,464	36,117
Income		
Income from approved loans to shareholders with over 5%	256	59
Interest income from key personnel of Management and their family members	21	19
Interest income from Supervisory Board ,Audit Committee and their family members	6	4
	283	82
Expenses		
Interest expense – persons associated with the Bank (Management, Supervisory Board ,and shareholders with over 5%)	48	21
Interest expense - Ministry of Finance FB&H	-	656
	48	677

During regularly business activities it had realized several bank transactions with related parties. These transactions have been performed under commercial conditions and terms with using market rates.

Fees paid to Management members on key positions are:

	2013 BAM 000	2012 BAM 000
Salaries to directors and other key personnel of Management	345	299
Taxes and contributions	165	165
Fees to Supervisory Board	75	75
Fees to Audit Committee	38	39
Subtotal	**623**	**578**

32. MANAGED FUNDS

Funds managed by the Bank on behalf of individuals, trusts and other institutions are not assets of the Bank and, therefore, are not included in its balance sheet.

	2013 BAM 000	2012 BAM 000
Liabilities		
Government of Federation Bosnia and Herzegovina	8,769	9,389
Government of Bosnia and Herzegovina	500	500
Fond za izgradnju Kantona Sarajevo	105	110
Međunarodni MG	21	63
Kanton Sarajevo	13	42
Total	**9,408**	**10,104**
Assets		
Loans approved to legal entities	8,917	9,594
Loans approved to individuals	485	495
Total	**9,402**	**10,089**
Current liabilities from managed funds activities (Note 27)	**6**	**15**

The Bank does not bear the risk for these placements and charges a fee for its services.

33. FINANCIAL INSTRUMENTS

Capital risk management

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

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

The Bank expects to maintain its debt to capital ratio. Solvency indicators were as follows:

	31/12/2013 BAM 000	31/12/2012 BAM 000
Debt (i)	196,326	215,410
Cash and cash equivalents	(37,554)	(34,621)
Net debt	158,772	180,789
Capital (ii)	46,089	46,658
Net debt to equity ratio	**3.33**	**3.87**

Debt (i) is defined as liabilities to banks and clients presented in detail in Notes 23, 24 and 25. Capital (ii) includes total share equity, share premium and accumulated gain. 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 (FBA) for supervisory purposes. The required information is filed with the FBA on a quarterly basis.

33. FINANCIAL INSTRUMENTS (CONTINUED)

Capital risk management (continued)

Banking Agency request from all banks: (a) to maintain minimum amount paid share capital of the bank in amount of BAM 15 million; and (b) to maintain ratio net-capital and weighted assets risk as minimum 12%.

The Bank's net capital is divided into two tiers:

- Tier 1 capital or Core Capital: share capital (net of any book values of the treasury shares),share premium, retained earnings and reserves created by appropriations of retained earnings; and

- Tier 2 capital or Supplementary Capital: qualifying subordinated loan capital, other share capital, general reserves for credit losses and net profit of current year.

The risk-weighted assets are measured by means of a hierarchy of four weights 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.

The table below summarizes the composition of regulatory capital and the ratios of the Bank for the years ended 31 December.

During those two years the Bank complied with all of the externally imposed capital requirements related to capital:

	2013 BAM 000	2012 BAM 000
Tier 1 capital		
Share capital	26,284	26,285
Legislative reserves	12,418	12,565
Accumulated profit	2,387	939
Intangible assets	(279)	(308)
Total qualifying Tier 1 Capital	***40,810***	***39,481***
Tier 2 capital		
Other share capital	2,882	2,882
General reserves	2,781	3,561
Net profit of the current year	653	2,523
Total qualifying Tier 2 Capital	***6,316***	***8,966***
Deductible items:		
- investments	(2,844)	(3,043)
- insufficient reserves for credit losses – regulator (FBA)	(3,493)	(1,358)
Total net-capital	**40,789**	**44,046**
Risk weighted assets	**177,692**	**200,359**
Balance sheet	162,335	183,922
Off Balance sheet	15,357	16,437
Weighted operating risk	**9,963**	**8,113**
Capital adequacy ratio	**21.74%**	**21.11%**

33. FINANCIAL INSTRUMENTS (CONTINUED)

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

Categories of financial instruments

	31/12/2013 BAM 000	31/12/2012 BAM 000
Financial assets		
Cash and cash equivalents (including Obligatory reserves with Central Bank)	37,554	34,621
Placements with other banks	23,666	19,439
Loans and advances, net	161,356	188,633
Financial assets available for sale	2,905	3,046
Financial assets held to maturity	299	300
	225,780	**246,039**
Financial liabilities		
At amortized cost	198,321	217,725

Financial risk management objectives

The Bank's Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Bank through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk.

Market risk

The Bank's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (see below). Market risk exposures are supplemented by sensitivity analysis. There has been no change to the Bank's exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency risk management

The Bank undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts. The carrying amounts of the Bank's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	31/12/2013 BAM 000	31/12/2012 BAM 000	31/12/2013 BAM 000	31/12/2012 BAM 000
EUR	49,994	54,772	44,273	50,288
KWD	5,712	8,933	8,132	11,187
USD	6,185	6,338	1,689	2,176
Other	49	50	-	-

33. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency risk management (continued)

Foreign currency sensitivity analysis

Since Convertible Mark (BAM) is pegged to EUR, the Bank is not exposed to risk of change of EUR exchange rate (EUR 1 = BAM 1.95583). Change in the exchange rate would require the amendments of the law and approval by Parliamentary Assembly of Bosnia and Herzegovina. Significant exposure to foreign exchange risk is present for USD and KWD. The sensitivity analysis was performed on a 10% increase and/or decrease of in foreign against the local currency. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

	Effect USD (000 BAM)		**Effect KWD (000 BAM)**	
	31/12/2013	**31/12/2012**	**31/12/2013**	**31/12/2012**
Profit or (loss)	450	416	242	225

The analysis outlined above is used on open foreign currency position of the Bank, which includes all asset and liability items. If the currency position of a foreign currency is "long" (assets exceeding liabilities) and the exchange rate for this currency increases in relation to the BAM, the Bank will experience a foreign exchange gain. If the currency position of a foreign currency is "long" (assets exceeding liabilities) and the exchange rate for this currency decreases in relation to the BAM, the Bank will experience a foreign exchange loss. If the currency position of a foreign currency is "short" (liabilities exceeding assets) and the exchange rate for this currency increases in relation to BAM, the Bank will experience a foreign exchange loss. If the currency position of a foreign currency is "short" (liabilities exceeding assets) and the exchange rate for this currency decreases in relation to BAM, the Bank will experience a foreign exchange 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 Federal Banking Agency 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

Interest rate risk management

The Bank manages with interest rate risk based on interest rate risk limits determined by Interest rate Policy. The Bank's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the reporting period date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting period date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Bank 'net profit for the year ended 31 December 2013 would increase / decrease by BAM 73 thousand (31 December 2012 for BAM 121 thousand).

Credit risk management

The Bank takes on exposure to credit risk which is the risk upon credit approval and when 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 groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

33. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk management (continued)

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

Commitments arising from the issuance of letters of credit: Documentary letters of credit, which are written irrevocable undertakings by the Bank on behalf of a customer (mandatory) authorising a third party (beneficiary) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under open letters of credit are considerably less than the commitments under issued guarantees or stand-by letters of credit. However, the Bank records provisions against these instruments on the same basis as is applicable to loans.

Commitments to extend credit, unused loan commitments, unutilised overdrafts and approved overdraft loans: The primary purpose of commitments to extend credit is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credits in the form of loans, guarantees or stand-by letters of credit. Commitments to extend credit issued by the Bank represent issued loan commitments or guarantees, unused portions of and approved overdrafts loans. Commitments to extend credit or guarantees issued by the Bank, that are contingent upon customers maintaining specific credit standards (including the condition that a customer's solvency does not deteriorate) are revocable commitments. Irrevocable commitments represent unused portions of authorised loans and approved overdraft facilities because they result from contractual terms and conditions in the credit agreements.

Financial assets

31 December 2013	Total gross carrying amount BAM 000	Unimpaired assets BAM 000	Individually impaired assets BAM 000	Impairments for losses (individually) BAM 000	Impairments for losses (collectively) BAM 000	Total net carrying amount BAM 000
Cash and balances with banks	16,100	16,100	-	-	-	16,100
Obligatory reserve with Central Bank	21,454	21,454	-	-	-	21,454
Placements with other banks	23,842	15,071	8,771	(176)	-	23,666
Loans and receivables	182,083	452	181,631	(17,833)	(2,894)	161,356
Financial assets available for sale	2,970	2,323	647	(65)	-	2,905
Financial assets held to maturity	299	299	-	-	-	299
	246,748	**55,699**	**191,049**	**(18,074)**	**(2,894)**	**225,780**
31 December 2012						
Cash and balances with banks	9,765	9,765	-	-	-	9,765
Obligatory reserve with Central Bank	24,856	24,856	-	-	-	24,856
Placements with other banks	19,598	11,633	7,965	(159)	-	19,439
Loans and receivables	206,599	500	206,099	(13,587)	(4,379)	188,633
Financial assets available for sale	3,046	3,046	-	-	-	3,046
Financial assets held to maturity	300	300	-	-	-	300
	264,164	**50,100**	**214,064**	**(13,746)**	**(4,379)**	**246,039**

33. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk management (continued)

Credit exposure and collateral

31 December 2013	Credit risk exposure			
Description	Loans BAM 000	Unutilized credit assets and unutilized overdraft limits BAM 000	Commitments/ guarantees BAM 000	Fair value of collateral BAM 000
Legal entities	162,759	5,439	16,069	
Individuals	19,324	161	-	
Total	**182,083**	**5,600**	**16,069**	**377,858**
31 December 2012				
Legal entities	187,324	2,607	19,795	
Individuals	19,275	92	-	
Total	**206,599**	**2,699**	**19,795**	**409,207**

Fair value of collateral

	31/12/2013 BAM 000	31/12/2012 BAM 000
Assets	369,432	391,739
Deposits	5,933	14,875
Guarantees	2,493	2,593
	377,858	**409,207**

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 regulatory bodies of Bosnia and Herzegovina. The table below provides an analysis of assets and liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdown's, 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.

Liquidity and interest risk tables
The following tables detail the Bank's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank can be required to pay. The table includes both interest and principal cash flows.

The table of financial assets have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Bank anticipates that the cash flow will occur in a different period.

33. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk management (continued)

Financial liabilities	Weighted average effective interest rate	Less than 1 month BAM 000	1-3 months BAM 000	3 months till 1 year BAM 000	1-5 years BAM 000	5+ years BAM 000	Total BAM 000
31/12/2013	%						
Non-interest bearing	-	68,895	150	197	325	99	69,666
Fixed interest rate instruments	3.37	3,652	7,083	36,567	27,436	40,582	115,320
Variable interest rate instruments	1.39	-	725	2,174	8,746	3,601	15,246
		72,547	**7,958**	**38,938**	**36,507**	**44,282**	**200,232**
31/12/2012							
Non-interest bearing	-	142	-	-	-	-	142
Fixed interest rate instruments	2.14	80,455	5,802	31,223	42,881	38,331	198,692
Variable interest rate instruments	1.22	31	916	2,855	13,423	8,126	25,351
		80,628	**6,718**	**34,078**	**56,304**	**46,457**	**224,185**
Financial assets							
31/12/2013							
Non-interest bearing	-	17,462	-	-	3,204	25	20,691
Fixed interest rate instruments	7.39	16,521	11,359	39,332	65,043	40,558	172,813
Variable interest rate instruments	1.84	42,082	2,274	4,824	14,229	8,586	71,995
		76,065	**13,633**	**44,156**	**82,476**	**49,169**	**265,499**
31/12/2012							
Non-interest bearing	-	21,167	-	-	3,068	3	24,238
Fixed interest rate instruments	7.13	33,653	21,037	53,073	80,878	45,419	234,060
Variable interest rate instruments	0.30	29,025	1	743	-	-	29,769
Difference 31/12/2013		**83,845**	**21,038**	**53,816**	**83,946**	**45,422**	**288,067**
Difference 31/12/2012		**3,217**	**14,320**	**19,738**	**27,642**	**(1,035)**	**63,882**

34. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board on 6 February 2014.

Signed on behalf of the Management:

BOR BANKA DD
I
SARAJEVO

Hamid Pršeš
Director

Enisa Hulusić
Executive director for accounting and treasury