

Intesa Sanpaolo Banka d.d. Bosna i Hercegovina

Financial Statements as at 31 December 2013

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The Management Board has pleasure in submitting its report for the year ended 31 December 2013.

Review of operations

The result for the year ended 31 December 2013 of the Bank is set out in the income statement on page 5.

Supervisory Board, Management Board and Audit Committee

During the course of 2013 and up to the date of this report, the Supervisory Board comprised:

Supervisory Board

Vojko Čok	Chairman
Ivan Sramko	Vice-Chairman
Beata Kissne Foldi	Member
Finazzi Luca Santo	Member
Paolo Sarcinelli	Member

During the course of 2013 and up to the date of this report, the Audit Committee comprised:

Audit Committee

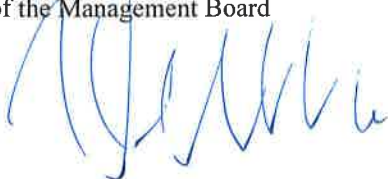
Giovanni Bergamini	Chairman
Alberto Gandini	Member
Nicoletta Fusetti	Member
Damiano Accattoli	Member
Veronika Vavrova	Member

As of 31 December 2013 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
Igor Bilandžija	Executive Director of Risk Management

On behalf of the Management Board



Almir Krkalić

Director



Dario Grassani

Executive Director of Finance



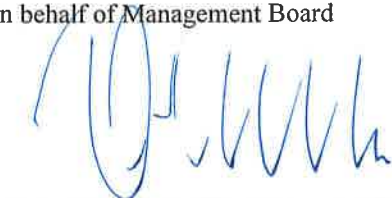
The Management Board is required to prepare financial statements, which give a true and fair view of the financial position of the Bank and of the results of its operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records 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 5 to 73 were authorised by the Management Board on 24 February 2014 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



Dario Grassani

Executive Director of Finance



Intesa Sanpaolo Banka, d.d. BiH
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 2013, 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 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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




24 February 2014

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



Manal Bećirbegović
Director



Senad Pekmez
FBiH registered auditor
Licence number: 3090044102/10

Intesa Sanpaolo Banka, d.d. BiH
Income statement for the year ended 31 December 2013
(all amounts are expressed in thousands of KM, unless otherwise stated)

	<i>Notes</i>	31 December 2013	31 December 2012
		_____	_____
Interest income	8	79,292	84,446
Interest expense	9	(26,610)	(28,856)
		_____	_____
Net interest income		52,682	55,590
		_____	_____
Fee and commission income	10	18,639	15,842
Fee and commission expense	11	(4,743)	(4,109)
		_____	_____
Net fee and commission income		13,896	11,733
		_____	_____
Net trading income	12	1,808	1,702
Other operating income	13	920	689
		_____	_____
Other operating income		2,728	2,391
		_____	_____
Total operating income		69,306	69,714
		_____	_____
Personnel expenses	14	(18,795)	(17,375)
Administrative expenses	15	(18,267)	(17,312)
Depreciation and amortisation		(4,030)	(4,795)
		_____	_____
Operating expenses		(41,092)	(39,482)
		_____	_____
Profit before impairment losses and other provisions and income tax		28,214	30,232
Net impairment losses and other provisions	16	(13,075)	(12,799)
		_____	_____
Profit before tax		15,139	17,433
Income tax expense	17	(1,710)	(1,849)
		_____	_____
Net profit for the period		13,429	15,584
		=====	=====
Basic and diluted earnings per share (KM)	18	30.07	34.80
		=====	=====

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

	31 December 2013	31 December 2012
	_____	_____
Profit for the year	13,429	15,584
Other comprehensive income for the year		
<u>Items that may be reclassified subsequently to profit or loss</u>		
<i>Fair value reserves (available-for-sale financial assets)</i>		
Change in fair value, net of deferred tax	(67)	62
<u>Items that will never be reclassified to profit or loss</u>		
Purchase of AMEX credit card portfolio, net of deferred tax	155	
	_____	_____
Other comprehensive income, net of tax	88	62
	_____	_____
Total comprehensive income for the year	13,517	15,646
	=====	=====

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

Intesa Sanpaolo Banka, d.d. BiH
Statement of financial position as at 31 December 2013
(all amounts are expressed in thousands of KM, unless otherwise stated)

	<i>Notes</i>	31 December 2013	31 December 2012
Assets			
Cash and cash equivalents	19	154,972	136,621
Obligatory reserve with the Central Bank	20	73,945	70,061
Placements with other banks	21	29,572	39,739
Financial assets available for sale	22 a)	2,159	2,351
Financial assets at fair value through profit or loss	22 b)	273	301
Loans and receivables from customers	23	1,034,450	1,041,235
Income tax prepayment		1,764	1,683
Other assets	24	7,525	10,174
Property and equipment	25	20,406	20,502
Intangible assets	26	4,225	2,730
		—————	—————
Total Assets		1,329,291	1,325,397
		=====	=====
Liabilities			
Due to banks and other financial institutions	27	261,490	330,735
Due to customers	28	864,360	808,406
Financial liabilities at fair value through profit or loss	22 b)	34	56
Subordinated debt	29	764	923
Other liabilities	30	11,507	8,617
Provisions for liabilities and charges	31	4,145	3,196
Deferred tax liability	32	18	8
		—————	—————
Total liabilities		1,142,318	1,151,941
		=====	=====
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		6,305	6,150
Fair value reserves		13	80
Retained earnings		60,172	46,743
		—————	—————
Total equity		186,973	173,456
		=====	=====
Total liabilities and equity		1,329,291	1,325,397
		=====	=====

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

Intesa Sanpaolo Banka, d.d. BiH
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)
<i>Total other comprehensive income</i>	-	-	-	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.

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

Intesa Sanpaolo Banka, d.d. BiH

Statement of changes in shareholders' equity for the year ended 31 December 2012

(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 2012	44,782	57,415	18,279	6,150	18	31,166	157,810
Net profit for the year	-	-	-	-	-	15,584	15,584
Other comprehensive income							
Net gain from change in fair value of financial assets available for sale	-	-	-	-	68	-	68
Deferred tax	-	-	-	-	(6)	-	(6)
	_____	_____	_____	_____	_____	_____	_____
<i>Total other comprehensive income</i>	-	-	-	-	62	-	62
	_____	_____	_____	_____	_____	_____	_____
Total comprehensive income	-	-	-	-	62	15,584	15,646
Transfer from retained earnings to regulatory reserves	-	-	7	-	-	(7)	-
	_____	_____	_____	_____	_____	_____	_____
Balance as at 31 December 2012	44,782	57,415	18,286	6,150	80	46,743	173,456
	=====	=====	=====	=====	=====	=====	=====

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

Intesa Sanpaolo Banka, d.d. BiH**Statement of cash flows****(all amounts are expressed in thousands of KM, unless otherwise stated)**

	<i>Notes</i>	31 December 2013	31 December 2012
Cash flows from operating activities			
Profit for the period		13,429	15,584
<i>Adjustments for:</i>			
- depreciation and amortisation		4,030	4,795
- net impairment losses and provisions		13,075	12,799
- net change in provisions for liabilities and charges		137	(387)
- net interest income		(52,682)	(55,590)
- net change in fair value of financial assets and liabilities at fair value through profit or loss		(30)	(96)
- net gain from disposal of property and equipment		(57)	(65)
- tax expense		1,710	1,849
		(20,388)	(21,111)
<i>Changes in:</i>			
- placements with other banks		10,185	(8,233)
- loans and receivables from customers		(1,411)	(31,867)
- other assets		2,363	(4,694)
- obligatory reserve with Central Bank		(3,884)	1,097
- financial assets and liabilities at fair value through profit or loss		6	(149)
- due to banks		(70,040)	(111,207)
- due to customers		53,098	87,989
- other liabilities		2,900	(1,633)
- provisions for liabilities and charges		(130)	(243)
		(27,301)	(90,051)
Income tax paid		(1,791)	(784)
Interest received		75,873	80,772
Interest paid		(22,959)	(27,847)
Net cash from/(used) in operating activities		23,822	(37,910)
Cash flows from investing activities			
Acquisition of property and equipment		(3,267)	(2,214)
Proceeds from the sale of property and equipment		117	475
Acquisition of intangible assets		(2,472)	(1,035)
Proceeds from financial assets available for sale		155	13,674
Net cash (used in)/from investing activities		(5,467)	10,900
Cash flows from financing activities			
Repayment of subordinated debt		(159)	(160)
Reserves from portfolio transfer		155	-
Net cash flow used in financing activities		(4)	(160)
Net increase/(decrease) in cash and cash equivalents		18,351	(27,170)
Cash and cash equivalents at the beginning of the year	<i>19</i>	136,621	163,791
Cash and cash equivalents at the end of the year	<i>19</i>	154,972	136,621

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 PRESENTATION

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 2014 for submission to 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. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised 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 5.

3. SUMMARY OF ACCOUNTING POLICIES

The accounting policies set out 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 2012	EUR 1 = KM 1.95583	USD 1 = KM 1.483600
31 December 2013	EUR 1 = KM 1.95583	USD 1 = KM 1.419016

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.

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 minimise the use of unobservable inputs. 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.

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.

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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

Identification and measurement of impairment of financial assets

(a) Financial assets carried at amortised cost

The Bank assesses at each reporting date whether there is 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 an 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 will be higher or lower of those calculated by historical modelling. The Bank regularly reviews the loss rate and the expected rate of recovery at each reporting date, to ensure accurate reporting.

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.

(i) 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.

(j) 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)

(k) 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.

(l) 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)

(m) 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.

(n) 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 2013.

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)

(o) *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.

(p) *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.

(q) *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.

(r) *New standards and interpretations*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. Those that may be relevant to the Bank are set out below. The Bank does not plan to an early adoption and application of these standards.

- IFRS 9 (2013), IFRS 9 *Financial Instruments* (2010) and IFRS 9 *Financial Instruments* (2009) (together, IFRS 9)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for hedge accounting. The IASB currently has an active project to make limited amendments to the classifications and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables. For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in Other comprehensive income ("OCI"). No amount recognised in OCI would ever be reclassified to profit or loss at a later date. However, dividends on such investments would be recognised in profit or loss, rather than OCI, unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in OCI would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires derivatives embedded in contracts with a host that is a financial asset in the scope of the standard not to be separated; instead, the hybrid financial instrument is assessed in its entirety for whether it should be measured at amortised cost or fair value.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to present fair value changes that are attributable to the liability's credit risk in OCI rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(r) New standards and interpretations (continued)

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised. However, early application of IFRS 9 is permitted.

The Bank has not yet decided on the date of initial application of the new standard neither it has analysed the effects of its application.

- **Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)**

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Early application is permitted.

The Bank will adopt the amendments to IAS 32 from 1 January 2014 and does not expect that it will have significant impact on the financial statements.

- **IFRIC 21 Levies**

IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when and only when the triggering event specified in the legislation occurs. IFRIC 21 is not expected to have a material effect on the Bank's financial statements.

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.

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

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

	31 December 2013	31 December 2012
<i>Summary of impairment allowances:</i>		
Impairment allowance for balance sheet exposures, including IBNR (Note 23)	85,215	82,340
Provisions for off-balance-sheet, including IBNR (Note 31)	2,129	1,187
	<u>87,344</u>	<u>83,527</u>

As at 31 December 2013 and 31 December 2012, the gross value of impaired loans and receivables (non-performing loans – NPL) and the rate of impairment loss recognised were as follows:

	31 December 2013			31 December 2012		
	Corporate	Retail	Total	Corporate	Retail	Total
Gross exposure	87,041	29,652	116,693	91,092	32,242	123,334
Impairment allowance	(52,433)	(21,706)	(74,139)	(48,919)	(24,309)	(73,228)
Impairment rate	60%	73%	64%	54%	75%	59%

An increase in the impairment rate of 1 percentage point of the gross non-performing exposure presented above as at 31 December 2013, would lead to the recognition of an additional impairment loss of KM 1,167 thousand (2012: KM 1,233 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 2013 amounted to KM 11,076 thousand for balance sheet exposure and KM 1,686 thousand for off-balance-sheet exposure. (2012: KM 9,112 thousand for balance sheet exposure and KM 1,172 thousand for off-balance-sheet exposure). The total IBNR provision amounted to 1.07% (2012: 0.87%) 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 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 2013 are calculated in accordance with the new methodology, as explained in Note 3(n):

Summary of impairment allowances	31 December 2013	31 December 2012
Provisions for balance-sheet exposure (Agency)	115,066	111,389
Provisions for off-balance-sheet exposure	4,760	3,764
	119,826	115,153
Impairment allowances under IFRS	87,971	84,507
Excess at period end	31,855	30,646

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 31,855 thousand as at 31 December 2013 (31 December 2012: KM 30,646 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 2013 (31 December 2012: KM 18,286 thousand). The remaining amount of KM 13,569 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 1,538 thousand (2012: KM 1,518 thousand), which the 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.

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.

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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 2013	31 December 2012
<i>Included in the statement of financial position</i>		
Current accounts with Central Bank and other banks	128,116	109,027
Obligatory reserve with the Central Bank	73,945	70,061
Placements with other banks	29,572	39,739
Debt securities available for sale	1,568	1,754
Loans and receivables from customers	1,034,450	1,041,235
Income tax prepayment	1,764	1,683
Other assets excluding repossessed assets	6,579	6,819
 <i>Off-balance-sheet exposure</i>		
Undrawn lending commitments	128,822	114,612
Financial guarantees and letters of credit	62,845	63,342
	<hr/>	<hr/>
Total	1,467,661	1,448,272
	<hr/> <hr/>	<hr/> <hr/>

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 2013 and 31 December 2012, 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 performed 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.

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, 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 2013	31 December 2012
Other assets (note 24)	946	3,355
Property and equipment (note 25)	3,866	1,446
	4,812	4,801

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 performing loans until there are clear signs of default.

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 2013	31 December 2012
Corporate		
Loans to customers that are neither past due nor impaired	525,127	531,344
Past due but not impaired loans	27,749	36,386
Non-performing loans (impaired loans)	87,041	91,092
	<u> </u>	<u> </u>
Gross exposure	639,917	658,822
	<u> </u>	<u> </u>
Less: impairment allowance	(60,477)	(55,947)
	<u> </u>	<u> </u>
Net exposure	579,440	602,875
	<u> </u>	<u> </u>
Retail		
Loans to customers that are neither past due nor impaired	413,763	395,237
Past due but not impaired loans	36,333	37,274
Non-performing loans (impaired loans)	29,652	32,242
	<u> </u>	<u> </u>
Gross exposure	479,748	464,753
	<u> </u>	<u> </u>
Less: impairment allowance	(24,738)	(26,393)
	<u> </u>	<u> </u>
Net exposure	455,010	438,360
	<u> </u>	<u> </u>
Total gross exposure	1,119,665	1,123,575
	<u> </u>	<u> </u>
Portfolio impairment allowance (IBNR)	11,076	9,112
Specific impairment allowances	74,139	73,228
	<u> </u>	<u> </u>
Net exposure	1,034,450	1,041,235
	<u> </u>	<u> </u>

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			Total	Corporate loans		
	Consumer loans	Housing loans	Credit card loans and overdrafts		Large	Other	Total
31 December 2013							
Standard monitoring	235,481	128,873	49,409	413,763	169,701	355,426	525,127
	_____	_____	_____	_____	_____	_____	_____
31 December 2012							
Standard monitoring	219,671	127,170	48,396	395,237	183,398	347,946	531,344
	_____	_____	_____	_____	_____	_____	_____

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(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)

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:

	<u>Gross amount</u>	<u>Until 30 days</u>	<u>31 – 60 days</u>	<u>Past due days 61 – 90 days</u>	<u>Over 90 days</u>
31 December 2013					
Corporate loans					
- Large	1,249	1,249	-	-	-
- Other	26,500	25,382	275	843	-
	<u>27,749</u>	<u>26,631</u>	<u>275</u>	<u>843</u>	<u>-</u>
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
	<u>36,333</u>	<u>27,412</u>	<u>7,562</u>	<u>1,352</u>	<u>7</u>
Total	<u><u>64,082</u></u>	<u><u>54,043</u></u>	<u><u>7,837</u></u>	<u><u>2,195</u></u>	<u><u>7</u></u>

	<u>Gross amount</u>	<u>Until 30 days</u>	<u>31 – 60 days</u>	<u>Past due days 61 – 90 days</u>	<u>Over 90 days</u>
31 December 2012					
Corporate loans					
- Large	1,716	1,098	618	-	-
- Other	34,670	34,356	42	272	-
	<u>36,386</u>	<u>35,454</u>	<u>660</u>	<u>272</u>	<u>-</u>
Retail loans					
- Consumer	20,926	16,788	3,372	766	-
- Housing	13,412	10,981	1,785	646	-
- Credit Cards and overdrafts	2,936	2,486	396	54	-
	<u>37,274</u>	<u>30,255</u>	<u>5,553</u>	<u>1,466</u>	<u>-</u>
Total	<u><u>73,660</u></u>	<u><u>65,709</u></u>	<u><u>6,213</u></u>	<u><u>1,738</u></u>	<u><u>-</u></u>

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, are as follows:

	Retail loans			Total	Corporate loans		Total
	Consumer loans	Housing loans	Credit card loans and overdrafts		Large	Other	
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	<u>94%</u>	<u>17%</u>	<u>87%</u>	<u>73%</u>	<u>52%</u>	<u>62%</u>	<u>60%</u>
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

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(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 (continued)

	Retail loans			Total	Corporate loans		Total
	Consumer loans	Housing loans	Credit card loans and overdrafts		Large	Other	
31 December 2012							
Gross exposure	19,219	7,306	5,717	32,242	12,280	78,812	91,092
Impairment	(17,888)	(1,306)	(5,115)	(24,309)	(5,500)	(43,419)	(48,919)
Net	1,331	6,000	602	7,933	6,780	35,393	42,173
<i>Rate of impairment</i>	93%	18%	89%	75%	45%	55%	54%
Estimated value of collateral							
Cash deposit	40	-	-	40	-	-	-
Mortgage	521	7,036	11	7,568	10,398	60,036	70,434
Total	561	7,036	11	7,608	10,398	60,036	70,434

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 gross amounts of balance sheet exposure are as follows:

	Bosnia and Herzegovina	OECD countries	Non-OECD countries	Total
As at 31 December 2013				
Current accounts with 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
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2013	1,245,288	30,706	-	1,275,994
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
As at 31 December 2012				
Current accounts with Central Bank and other banks	109,027	-	-	109,027
Obligatory reserves with the Central Bank	70,061	-	-	70,061
Placements with other banks	-	39,739	-	39,739
Debt securities available for sale	1,754	-	-	1,754
Loans and receivables from customers	1,041,235	-	-	1,041,235
Income tax prepayment	1,683	-	-	1,683
Other assets	5,950	869	-	6,819
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2012	1,229,710	40,608	-	1,270,318
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(all amounts are expressed in thousands of KM, unless otherwise stated)

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 2013 and 31 December 2012, 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 1month	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	378,357	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 reserves	-	-	-	-	186,973	186,973
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)	-

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(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 2012						
Assets						
Cash and cash equivalents	136,621	-	-	-	-	136,621
Obligatory reserve with the Central Bank	70,061	-	-	-	-	70,061
Placements with other banks	38,650	-	-	489	600	39,739
Financial assets available for sale	1,742	-	-	-	609	2,351
Financial assets at fair value through profit or loss	91	-	-	210	-	301
Loans and receivables from customers	96,037	101,731	278,494	375,604	189,369	1,041,235
Income tax prepayment and other assets	11,857	-	-	-	-	11,857
Property and equipment and intangible assets	-	-	-	-	23,232	23,232
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	355,059	101,731	278,494	376,303	213,810	1,325,397
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Liabilities and equity						
Due to banks and other financial institutions	67,717	24,876	48,011	149,925	40,206	330,735
Due to customers	312,633	32,694	245,779	208,972	8,328	808,406
Financial liabilities at fair value through profit or loss	56	-	-	-	-	56
Subordinated debt	-	40	120	643	120	923
Other liabilities	8,449	-	-	-	168	8,617
Provision for liabilities and charges	-	-	-	-	3,196	3,196
Deferred tax liability	8	-	-	-	-	8
Share capital and reserve	-	-	-	-	173,456	173,456
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and equity	388,863	57,610	293,910	359,540	225,474	1,325,397
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Maturity gap	(33,804)	44,121	(15,416)	16,763	(11,664)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(all amounts are expressed in thousands of KM, unless otherwise stated)

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 2013 and as at 31 December 2012 as prepared by the Bank, are shown in the following table:

	Total expected outflow					Total	Carrying value
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years		
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

	Total expected outflow					Total	Carrying value
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years		
31 December 2012							
Liabilities							
Due to banks and other financial institutions	66,314	26,379	50,238	154,554	41,514	338,999	330,735
Due to customers	309,412	36,271	252,432	223,387	9,023	830,525	808,406
Subordinated debt	2	44	135	684	122	987	923
Total expected outflow	375,728	62,694	302,805	378,625	50,659	1,170,511	1,140,064

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.

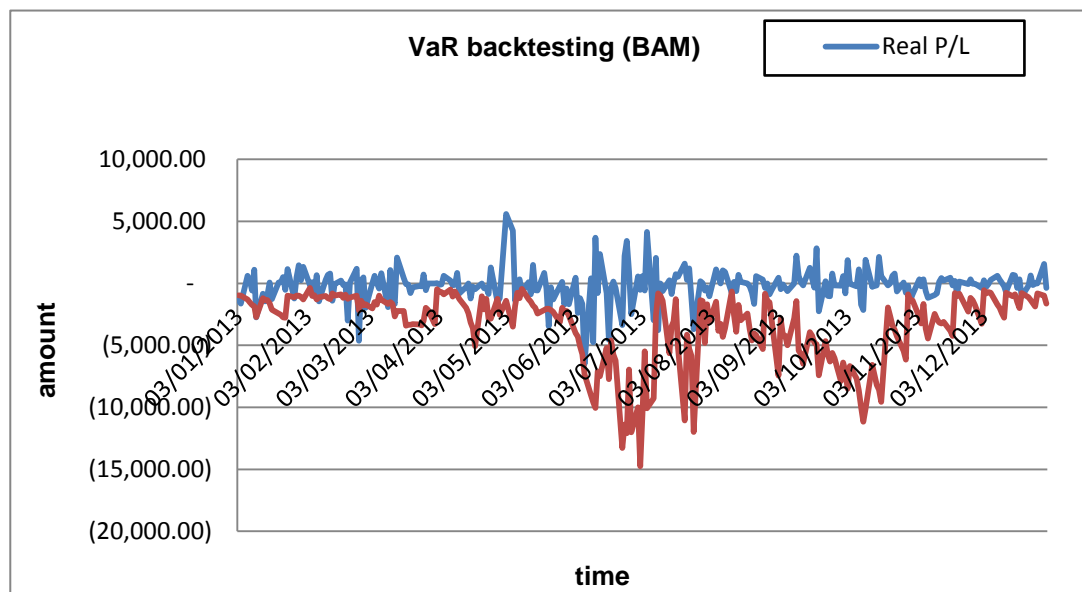
The model can compute VaR at different aggregation levels – from a single position to any sub-portfolio level. Therefore, the model allows a detailed analysis of risk profiles for the multi-level portfolio hierarchy and diversity effects occurring. Furthermore, VaR measurement can be expounded based 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)



During 2013 the Bank recorded 20 back-testing exceptions (2012: 12 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 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)	-	-

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Market risk (continued)

5.3.1 Foreign exchange risk (continued)

31 December 2012

Currency	Open position (in KM)	Stress Test	
		10% Move Up	10% Move Down
CHF	38,000	3,800	(3,800)
GBP	13,000	1,300	(1,300)
USD	(215,000)	(21,500)	21,500
HRK	40,000	4,000	(4,000)
CAD	73,000	7,300	(7,300)
AUD	76,000	7,600	(7,600)
other	189,000	18,900	(18,900)
EUR	(23,705,000)	-	-

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 in relation to the KM, 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 KM, 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 KM, 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 KM, 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 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.

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(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)

Foreign exchange position

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2013 and 31 December 2012. 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 2013	EURO	EURO linked	EURO total	USD	Other FX	KM	Total
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)	-

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(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 2012	EURO	EURO linked	EURO total	USD	Other FX	KM	Total
Assets							
Cash and cash equivalents	96,665	-	96,665	1,243	6,999	31,714	136,621
Obligatory reserves with the Central Bank	-	-	-	-	-	70,061	70,061
Placement with other banks	24,155	-	24,155	15,584	-	-	39,739
Financial assets available for sale	45	-	45	-	-	2,306	2,351
Financial assets at fair value through profit or loss	210	-	210	-	-	91	301
Loans and receivables from customers	2,714	725,393	728,107	290	-	312,838	1,041,235
Income tax prepayment	-	-	-	-	-	1,683	1,683
Other asset	789	-	789	39	-	9,346	10,174
Property and equipment and intangible assets	-	-	-	-	-	23,232	23,232
Total assets	124,578	725,393	849,971	17,156	6,999	451,271	1,325,397
Liabilities and equity							
Due to banks and other financial institutions	327,704	-	327,704	-	-	3,031	330,735
Due to customers	362,379	100,595	462,974	15,084	6,603	323,745	808,406
Financial liabilities at fair value through profit or loss	-	-	-	-	-	56	56
Subordinated debt	-	-	-	-	-	923	923
Other liabilities	811	-	811	-	7	7,799	8,617
Provision for liabilities and charges	-	-	-	-	-	3,196	3,196
Deferred tax liability	-	-	-	-	-	8	8
Share capital and reserves	-	-	-	-	-	173,456	173,456
Total liabilities and equity	690,894	100,595	791,489	15,084	6,610	512,214	1,325,397
Net foreign exchange position	(566,316)	624,798	58,482	2,072	389	(60,943)	-

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 volatilities 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.

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 2013, the effect is KM 3,887 thousand (31 December 2012: KM 3,464 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 (+100b.p)	31 December 2013	31 December 2012
EUR	2,992	2,760
USD	119	105
CHF	-	-
KM	764	587
Other currencies	12	11
Total	3,887	3,463

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 2013 is an increase/decrease of KM 3,532 thousand (31 December 2012: KM 3,136 thousand). In addition, the Bank also prepares shift sensitivity of the interest margin based on the sensitivity range of +50/-50 bps which resulted in increase/decrease in income statement of KM +/-1,766 thousand as of 31 December 2013 (31 December 2012: KM +/-1,568 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.

As of 31 December 2013 the Bank was in compliance with all regulatory capital requirements and according to the local regulations had a capital adequacy ratio of 14.68% (2012: 13.80%).

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; unrealised gains/losses arising on the fair valuation of financial assets available for sale;
- Tier 2 Capital or Supplementary Capital: qualifying principal amounts of subordinated loan capital, collective impairment allowances and audited profit for the current period; 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.

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(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 2013 and 31 December 2012 (information on risk-weighted assets is unaudited), taken from the calculations submitted to the Agency in respect of those period-ends.

	31 December 2013	31 December 2012
Tier 1 capital		
Share capital	44,782	44,782
Share premium	57,415	57,415
Statutory and other reserves	6,305	6,150
Retained earnings brought forward	46,743	31,160
Fair value reserves	13	80
Intangible assets	(4,225)	(2,730)
	<hr/>	<hr/>
Total qualifying Tier 1 Capital	151,033	136,857
	<hr/>	<hr/>
Tier 2 capital		
General provisions – FBA regulations	22,656	22,903
Subordinated debt	762	923
Audited profit for the period	13,429	15,584
	<hr/>	<hr/>
Total qualifying Tier 2 Capital	36,847	39,410
	<hr/>	<hr/>
Adjustment for shortfall in regulatory reserve	(13,569)	(9,270)
	<hr/>	<hr/>
Total regulatory capital	174,311	166,997
	<hr/>	<hr/>
Risk weighted assets (unaudited)		
On balance sheet	1,000,104	1,032,941
Off balance sheet	104,580	100,821
	<hr/>	<hr/>
Total	1,104,684	1,133,762
	<hr/>	<hr/>
Operational risk	82,967	76,669
	<hr/>	<hr/>
Total weighted risk	1,187,651	1,210,431
	<hr/>	<hr/>
Capital adequacy ratio	14.68%	13.80%
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In accordance with Agency regulations, Tier 1 capital does not include the balance on the regulatory reserve for credit losses (KM 18,286 thousand at 31 December 2013) which is part of net equity in the statement of financial position. However, general provisions calculated in accordance with Agency rules (KM 22,656 thousand at 31 December 2013) 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 2013 this amounted to KM 13,569 thousand.

In accordance with Agency regulations, audited profit for the period is included in the calculation of regulatory capital if the audited financial statements for the period have 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 the period is included.

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.

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(all amounts are expressed in thousands of KM, unless otherwise stated)

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

6.2 Financial instruments at fair value – fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position

31 December 2013	Note	Level 1 BAM '000	Level 2 BAM '000	Level 3 BAM '000	Total BAM '000
Financial assets available for sale	22 a)				
Equity securities issued by non-resident legal entities		-	38	-	38
Bonds issued by the Federation of Bosnia and Herzegovina		-	1,568	-	1,568
Total		-	1,606	-	1,606
Financial liabilities at fair value through profit or loss	22 b)				
Equity shares		273	-	-	273
Derivatives held for trading – OTC products		-	34	-	34
Total		273	34	-	307

31 December 2012		Level 1 BAM '000	Level 2 BAM '000	Level 3 BAM '000	Total BAM '000
Equity securities issued by non-resident legal entities	22 a)	-	44	-	44
Bonds and treasury bills issued by the Federation of Bosnia and Herzegovina	22 a)	-	1,754	-	1,754
Equity shares	22 b)	210	-	-	210
Derivatives assets held for trading – OTC products	22 b)	-	-	91	91
Derivatives liabilities held for trading – OTC products	22 b)	-	-	56	56

Derivatives held for trading that were outstanding at the end of 2012 expired during 2013. Accordingly, there was no transfer between fair value levels during the reporting period.

In July 2013 the Bank has adopted the Fair Value Policy of the Intesa Sanpaolo Group, and currently classifies derivatives in Level 2 of the fair value hierarchy, considering the observable inputs described in paragraph 6.1.

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(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

31 December 2013	Level 1 BAM '000	Level 2 BAM '000	Level 3 BAM '000	Total fair value BAM '000	Carrying value BAM '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	29,572
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

In estimating the fair value of the Bank's financial instruments, the following methods and assumptions are used and the following limitations apply:

Cash and cash equivalents

The carrying values of cash and balances with banks are generally deemed to approximate their fair value.

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.

Loans and receivables from customers, amounts due to customers, amounts due to banks

The fair value of loans and receivables from customers and amounts due to customers and banks is calculated defining the future cash flows for each outstanding deal and discounting them through the application of reference market rates specifically identified for floating and fixed rate positions and for each originally currency on currency and interest rate curves.

In estimating the fair value of loans and receivables from customers, no account is taken of expected future losses.

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.

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(all amounts are expressed in thousands of KM, unless otherwise stated)

7. OPERATING SEGMENTS (continued)

Segmental information as at and 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 BEFORE INCOME TAX	1,919	12,728	492	15,139
Income tax				(1,710)
NET PROFIT FOR THE YEAR				13,429

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(all amounts are expressed in thousands of KM, unless otherwise stated)

7. OPERATING SEGMENTS (continued)

Segmental information as at and for the year ending 31 December 2013

	Retail	Corporate	Treasury	Total
Cash and cash equivalents	26,856	-	128,116	154,972
Obligatory reserves with 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 and receivables from customers	455,011	579,439	-	1,034,450
Other unallocated amounts	-	-	-	33,920
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	481,867	579,439	234,065	1,329,291
	<hr/>	<hr/>	<hr/>	<hr/>
Due to banks and other financial institutions	-	25,069	236,421	261,490
Due to customers	426,458	437,903	-	864,361
Financial liabilities at fair value through profit or loss	-	-	34	34
Subordinated debt	-	-	764	764
Other unallocated amounts	-	-	-	15,669
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	426,458	462,972	237,219	1,142,318
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(all amounts are expressed in thousands of KM, unless otherwise stated)

7. OPERATING SEGMENTS (continued)

Segmental information as at and for the year ending 31 December 2012

	Retail	Corporate	Treasury	Total
Interest income	41,558	42,062	826	84,446
Interest expense	(13,151)	(14,053)	(1,652)	(28,856)
Net interest income	28,407	28,009	(826)	55,590
Fee and commission income	10,645	5,174	23	15,842
Fee and commission expense	(2,947)	(740)	(422)	(4,109)
Net fee and commission income	7,698	4,434	(399)	11,733
Net profit of trading activities and foreign exchange	41	19	1,642	1,702
Other operating income	243	363	83	689
Operating income	284	382	1,725	2,391
Personnel expense	(12,586)	(4,270)	(519)	(17,375)
Other administrative expense	(13,015)	(3,830)	(467)	(17,312)
Depreciation expense	(4,173)	(575)	(47)	(4,795)
Operating expense	(29,774)	(8,675)	(1,033)	(39,482)
Profit before impairment losses, and other provisions and income tax	6,615	24,150	(533)	30,232
Impairment losses and provisions	133	(12,894)	(38)	(12,799)
PROFIT/(LOSS) BEFORE INCOME TAX	6,748	11,256	(571)	17,433
Income tax				(1,849)
NET PROFIT FOR THE YEAR				15,584

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(all amounts are expressed in thousands of KM, unless otherwise stated)

7. OPERATING SEGMENTS (continued)

Segmental information as at and for the year ending 31 December 2012

	Retail	Corporate	Treasury	Total
Cash and cash equivalents	27,594	-	109,027	136,621
Obligatory reserves with Central Bank	-	-	70,061	70,061
Placements with other banks	-	-	39,739	39,739
Financial assets available for sale	-	-	2,351	2,351
Financial assets at fair value through profit or loss	-	-	301	301
Loans to customers	438,360	602,875	-	1,041,235
Other unallocated amounts	-	-	-	35,089
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	465,954	602,875	221,479	1,325,397
	<hr/>	<hr/>	<hr/>	<hr/>
Due to banks and other financial institutions	-	44,322	286,413	330,735
Due to customers	337,407	470,997	2	808,406
Financial liabilities at fair value through profit or loss	-	-	56	56
Subordinated debt	-	-	923	923
Other unallocated amounts	-	-	-	11,821
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	337,407	515,319	287,394	1,151,941
	<hr/>	<hr/>	<hr/>	<hr/>

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(all amounts are expressed in thousands of KM, unless otherwise stated)

8. INTEREST INCOME

	31 December 2013	31 December 2012
Corporate clients	37,855	42,009
Retail clients	41,080	41,566
Banks and other financial institutions	163	487
Interest on available-for-sale financial assets	188	348
Other	6	36
	<u>79,292</u>	<u>84,446</u>

9. INTEREST EXPENSE

	31 December 2013	31 December 2012
Corporate clients	9,896	8,808
Retail clients	11,095	7,722
Banks and other financial institutions	5,259	12,117
Other	360	209
	<u>26,610</u>	<u>28,856</u>

10. FEE AND COMMISSION INCOME

	31 December 2013	31 December 2012
Domestic payment transactions	3,685	3,328
Credit card activities	5,546	3,585
Foreign payment transactions	2,752	2,682
FX transactions	1,827	1,806
Guarantees	1,766	1,703
Agency services	224	101
Other	2,839	2,637
	<u>18,639</u>	<u>15,842</u>

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(all amounts are expressed in thousands of KM, unless otherwise stated)

11. FEE AND COMMISSION EXPENSE

	31 December 2013	31 December 2012
Credit card operations	3,270	2,527
Central Bank services	243	251
Domestic payment transactions	548	561
Guarantees	562	643
E-banking service	120	127
	<u>4,743</u>	<u>4,109</u>

12. NET TRADING INCOME

	31 December 2013	31 December 2012
Net foreign exchange losses from the translation of monetary assets and liabilities	(4)	(112)
Net gains from foreign exchange spot trading	1,782	1,718
Net gains on financial instruments at fair value through profit or loss	30	96
	<u>1,808</u>	<u>1,702</u>

13. OTHER OPERATING INCOME

	31 December 2013	31 December 2012
Income from claims settled by insurance companies and recharges from customers	635	285
Gain on sale of property	57	65
Other income	228	339
	<u>920</u>	<u>689</u>

14. PERSONNEL EXPENSES

	31 December 2013	31 December 2012
Net salaries	12,499	11,176
Tax and contributions	5,880	5,889
Provisions for liabilities and charges (Note 31)	11	24
Other expenses	405	286
	<u>18,795</u>	<u>17,375</u>

Personnel expenses include KM 3,225 thousand (31 December 2012: KM 3,260 thousand) of defined pension contributions paid into the State pension plan. Contributions are calculated as percentage of the gross salary paid. The Bank had 528 employees as at 31 December 2013 (537 as at December 2012).

15. ADMINISTRATIVE EXPENSES

	31 December 2013	31 December 2012
Rent and other rent-related expense	3,058	3,364
Telecommunication and post expense	2,647	2,685
Savings deposit insurance and other insurance charges	2,156	1,760
Provisions for liabilities and charges (Note 31)	126	(411)
Material expenses	1,102	1,164
Representation and marketing expense	643	859
Consultancy and Federal Banking Agency expenses	1,621	1,306
Energy	826	918
Maintenance expenses	2,709	2,601
Security and transport costs	2,043	1,894
Other costs	1,336	1,172
	<hr/>	<hr/>
	18,267	17,312
	<hr/> <hr/>	<hr/> <hr/>

16. NET IMPAIRMENT LOSSES AND PROVISIONS

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

	31 December 2013	31 December 2012
Net impairment losses and provisions		
-for loans to customers (Note 23)	11,615	12,914
-for other assets (Note 24)	268	802
-for property (Note 25)	250	237
-for off-balance sheet items (Note 31)	942	(1,154)
	<hr/>	<hr/>
	13,075	12,799
	<hr/> <hr/>	<hr/> <hr/>

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(all amounts are expressed in thousands of KM, unless otherwise stated)

17. INCOME TAX

	31 December 2013	31 December 2012
Current tax recognised in the income statement	1,710	1,849
Deferred tax recognised in other comprehensive income (Note 32)	10	6
	<u>1,720</u>	<u>1,855</u>

Income tax recognised in the income statement comprises current tax. The current rate of income tax amounts to 10% (2011: 10%).

	31 December 2013	31 December 2012
Profit before income tax	15,139	17,433
Tax calculated at rate of 10%	1,514	1,743
Non-deductible expenses	504	442
Non-taxable income	(308)	(336)
Income tax expense	<u>1,710</u>	<u>1,849</u>
Average effective income tax rate	<u>11.3%</u>	<u>10.6%</u>

18. BASIC AND DILUTED EARNINGS PER SHARE

	31 December 2013	31 December 2012
Net profit	13,429	15,584
Weighted average number of ordinary shares outstanding	447,760	447,760
Basic earnings per share (KM)	<u>30.00</u>	<u>34.80</u>

19. CASH AND CASH EQUIVALENTS

	31 December 2013	31 December 2012
Current account with Central Bank	121,900	14,790
Cash in hand in domestic currency	18,371	16,535
Cash in hand in foreign currency	8,485	11,059
Current accounts with other banks	6,216	94,237
	<u>154,972</u>	<u>136,621</u>

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(all amounts are expressed in thousands of KM, unless otherwise stated)

20. OBLIGATORY RESERVE WITH THE CENTRAL BANK

	31 December 2013	31 December 2012
Obligatory reserve	73,945	70,061
	<u>73,945</u>	<u>70,061</u>

The minimum obligatory reserve as of 31 December 2013 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 2013	31 December 2012
Placements with banks	29,572	39,739
	<u>29,572</u>	<u>39,739</u>

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.

22. FINANCIAL ASSETS

a) Financial assets available for sale

	31 December 2013	31 December 2012
<i>Debt instruments</i>		
Bonds issued by the Federation of Bosnia and Herzegovina	1,568	1,754
	<u>1,568</u>	<u>1,754</u>
<i>Equity instruments</i>		
Equity securities at cost	553	553
Equity securities at fair value	38	44
	<u>591</u>	<u>597</u>
	<u>2,159</u>	<u>2,351</u>

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(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 2013	31 December 2012
Financial assets		
Equity shares designated at fair value through profit or loss	273	210
Derivatives held for trading	-	91
	<u>273</u>	<u>301</u>
Financial liabilities		
Derivatives held for trading	34	56
	<u>34</u>	<u>56</u>

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

	31 December 2013 Notional amount	31 December 2013 Fair value	31 December 2012 Notional amount	31 December 2012 Fair value
Financial assets				
<i>Derivatives classified as held for trading – OTC products</i>				
Forward foreign exchange contracts	-	-	5,795	91
	<u>-</u>	<u>-</u>	<u>5,795</u>	<u>91</u>
Financial liabilities				
<i>Derivatives classified as held for trading – OTC products</i>				
Forward foreign exchange contracts	601	34	3,784	56
	<u>601</u>	<u>34</u>	<u>3,784</u>	<u>56</u>

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(all amounts are expressed in thousands of KM, unless otherwise stated)

23. LOANS AND RECEIVABLES FROM CUSTOMERS

	31 December 2013	31 December 2012
Short-term loans		
<i>Corporate</i>		
- in KM and KM linked to foreign currency	297,263	300,675
- in foreign currency	1,727	1,577
<i>Retail</i>		
- in KM and KM linked to foreign currency	61,648	61,323
- in foreign currency	-	-
	<u>360,638</u>	<u>363,575</u>
Long-term loans		
<i>Corporate</i>		
-in KM and KM linked to foreign currency	335,831	351,335
-in foreign currency	5,095	5,167
<i>Retail</i>		
-in KM and KM linked to foreign currency	418,036	403,430
-in foreign currency	65	68
	<u>759,027</u>	<u>760,000</u>
Total loans	1,119,665	1,123,575
Less: impairment allowance	(85,215)	(82,340)
	<u>1,034,450</u>	<u>1,041,235</u>

Loans and advances to customers are presented including accrued interest in the amount of KM 9,076 thousand (2012: KM 9,492 thousand), and net of deferred fees in the amount of KM 3,903 thousand (2012: KM 3,716 thousand).

As of 31 December 2013, 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 18,914 thousand and KM 701,450 thousand, respectively (31 December 2012: KM 23,024 thousand and KM 702,369 thousand, respectively).

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

	2.81. 2012	2013
Balance as at 1 January	<u>82,340</u>	<u>78,441</u>
Net charge to income statement (Note 16)	11,615	12,914
Unwinding of discount	(3,054)	(3,300)
Transfer based on migration of AMEX portfolio	165	-
Transfers - other	46	-
Write-offs	(5,897)	(5,715)
Balance as at 31 December	<u>85,215</u>	<u>82,340</u>

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(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 2013	31 December 2012
Trade	263,824	264,415
Manufacturing, agriculture, forestry, mining and energy	215,864	201,705
Construction industry	38,993	52,366
Services, finance, sport, tourism	34,709	43,658
Administrative and other public institutions	18,781	23,138
Transport and telecommunications	42,457	41,573
Other	25,289	31,967
Citizens	479,748	464,753
	<u>1,119,665</u>	<u>1,123,575</u>

24. OTHER ASSETS

	31 December 2013	31 December 2012
Prepaid expenses	2,126	2,781
Fees receivable	881	849
Receivables from card operations	1,851	2,482
Assets acquired upon foreclosure of loans	946	3,355
Other assets	2,771	2,900
	<u>8,575</u>	<u>12,367</u>
Total other assets	8,575	12,367
Less: impairment allowance	(1,050)	(2,193)
	<u>7,525</u>	<u>10,174</u>

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

Balance as at 1 January	2,193	2,839
Net charge to income statement (Note 16)	268	802
Transfer to property and equipment impairment	(601)	-
Write-offs	(810)	(1,448)
	<u>1,050</u>	<u>2,193</u>
Balance as at 31 December	1,050	2,193

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(all amounts are expressed in thousands of KM, unless otherwise stated)

25. PROPERTY AND EQUIPMENT

Cost	Land and Buildings	Computers and other equipment	Assets in the course of construction	Leasehold improvements	Total
At 1 January 2012	14,476	21,222	97	8,385	44,180
Additions	-	-	2,155	-	2,155
Transfer from other assets	41	18	-	-	59
Disposals	(337)	(1,324)	-	-	(1,661)
Transfers	68	1,878	(2,203)	257	-
At 31 December 2012	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
Accumulated depreciation					
At 1 January 2012	1,877	13,059	-	6,451	21,387
Charge for the year	213	2,610	-	1,035	3,858
Transfer from other assets	237	-	-	-	237
Disposals	(49)	(1,202)	-	-	(1,251)
At 31 December 2012	2,278	14,467	-	7,486	24,231
Charge for the year	325	2,124	-	604	3,053
Transfer from other asset	601	-	-	-	601
Impairment loss (Note 16)	250	-	-	-	250
Disposals	-	(730)	-	-	(730)
At 31 December 2013	3,454	15,861	-	8,090	27,405
At 31 December 2012	11,970	7,327	49	1,156	20,502
At 31 December 2013	13,420	6,166	222	598	20,406

26. INTANGIBLE ASSETS

	Software	Assets in the course of construction	Total
Cost			
At 1 January 2012	6,075	67	6,142
Additions	-	1,035	1,035
Disposals	(415)	-	(415)
Transfers	966	(966)	-
	<hr/>	<hr/>	<hr/>
At 31 December 2012	6,626	136	6,762
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Additions	-	2,472	2,472
Disposals	-	-	-
Transfers	1,203	(1,203)	-
	<hr/>	<hr/>	<hr/>
At 31 December 2013	7,829	1,405	9,234
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Amortisation			
At 1 January 2012	3,510	-	3,510
Charge for the year	937	-	937
Disposals	(415)	-	(415)
	<hr/>	<hr/>	<hr/>
At 31 December 2012	4,032	-	4,032
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Charge for the year	977	-	977
Disposals	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 December 2013	5,009	-	5,009
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2012	2,594	136	2,730
At 31 December 2013	2,820	1,405	4,225
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(all amounts are expressed in thousands of KM, unless otherwise stated)

27. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2013	31 December 2012
	<u> </u>	<u> </u>
Due to banks		
Current accounts and deposits		
Demand deposits		
-in KM	712	44
-in foreign currencies	695	43
Term deposits		
-in KM	-	-
-in foreign currencies	29,577	82,966
	<u> </u>	<u> </u>
	30,984	83,053
	<u> </u>	<u> </u>
Borrowings		
Long-term borrowings		
-foreign banks	205,437	203,360
	<u> </u>	<u> </u>
	205,437	203,360
	<u> </u>	<u> </u>
	236,421	286,413
	<u> </u>	<u> </u>
Due to other financial institutions		
Long term borrowings		
-in KM	2,414	2,986
-in foreign currencies	22,655	41,336
	<u> </u>	<u> </u>
Total borrowings from other financial institutions	25,069	44,322
	<u> </u>	<u> </u>
	261,490	330,735
	<u> </u>	<u> </u>

Current accounts, deposits and borrowings from banks presented above include accrued interest in the amount of KM 1,305 thousand KM (2012: KM 2,000 thousand).

Borrowings from other financial institutions are presented including accrued interest in the amount of KM 179 thousand (2012: KM 279 thousand).

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(all amounts are expressed in thousands of KM, unless otherwise stated)

28. DUE TO CUSTOMERS

	31 December 2013	31 December 2012
	_____	_____
Demand deposits:		
Retail clients:		
-in KM	75,575	60,745
-in foreign currencies	40,851	29,483
Corporate clients:		
-in KM	195,181	174,261
-in foreign currencies	43,742	37,324
	_____	_____
Total demand deposits	355,349	301,813
	_____	_____
Term deposits:		
Retail clients:		
-in KM	82,231	62,871
-in foreign currencies	227,830	184,307
Corporate clients:		
-in KM	100,070	126,463
-in foreign currencies	98,880	132,952
	_____	_____
Total term deposits	509,011	506,593
	_____	_____
	864,360	808,406
	=====	=====

Amounts due to customers are presented including accrued interest in the amount of KM 7,846 thousand (2012: KM 4,991 thousand).

29. SUBORDINATED DEBT

	31 December 2013	31 December 2012
	_____	_____
Ministry of Finance of Bosnia and Herzegovina	764	923
	_____	_____
	764	923
	=====	=====

The subordinated loan from Ministry of Finance was received in August 2003 in the amount of KM 2,408 thousand, and it is repayable in 60 quarterly instalments starting from 1 December 2003 until 1 September 2018. The interest rate is fixed at 2.3163 % p.a.

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 2013	31 December 2012
	<u> </u>	<u> </u>
Loan repayments received before due dates	3,528	3,256
Liabilities to vendors	1,105	1,210
Liabilities for employees' bonuses	43	121
Liabilities in respect of managed funds (Note 37)	107	177
Credit card liabilities	2,982	539
Liabilities to shareholders	140	140
Other liabilities	3,602	3,174
	<u> </u>	<u> </u>
	11,507	8,617
	<u> </u>	<u> </u>

31. PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2013	31 December 2012
	<u> </u>	<u> </u>
Provisions for legal proceedings	1,538	1,518
Provisions for retirement employee benefits	478	491
Provisions for off-balance-sheet credit risk	2,129	1,187
	<u> </u>	<u> </u>
	4,145	3,196
	<u> </u>	<u> </u>

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(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 six months to 31 December 2013 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 2012	2,156	483	2,341	4,980
Net charge to income statement	(411)	24	(1,154)	(1,541)
Reductions arising from payments	(227)	(16)	-	(243)
Balance at 31 December 2012	1,518	491	1,187	3,196
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

The calculation of provisions for retirement benefits of KM 235 thousand as of 31 December 2013 (2012: KM 245 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 243 thousand as of 31 December 2013 (2012: KM 246 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 2013	8
Increase in liabilities recognised in the statement of comprehensive income	10
As at 31 December 2013	18
As at 1 January 2012	2
Increase in liabilities recognised in the statement of comprehensive income	6
As at 31 December 2012	8

33. SHARE CAPITAL

	31 December 2013 and 31 December 2012		
	Class ES	Class EP	
	Ordinary shares	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 2013 and 31 December 2012 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 a new 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 share-based payment transaction, insofar the transaction occurred between entities belonging to the same group.

The equity shares will be delivered to the relevant employees once and in the event that vesting conditions are met. During the vesting period, the equity shares represent part of the portfolio of financial assets at fair value through profit or loss and are accordingly measured at fair value based on quotations on the Milan Stock Exchange.

35. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

	31 December 2013	31 December 2012
Contingent liabilities		
Payment guarantees	25,331	29,044
Performance guarantees	37,124	30,666
Letters of credit	938	4,041
	—————	—————
Total contingent liabilities	63,393	63,751
	—————	—————
Commitments		
Undrawn lending commitments	130,403	115,391
	—————	—————
Total commitments	130,403	115,391
	—————	—————
Total contingent liabilities and commitments	193,796	179,142
	=====	=====

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% (2012: 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 2013 and 31 December 2012 is presented below:

	31 December 2013	31 December 2012
	_____	_____
Assets		
Receivables from key management personnel and their close family members	322	536
Bank accounts and loans – Intesa Sanpaolo Group	31,252	24,371
Other receivables – Intesa Sanpaolo Group	94	53
	_____	_____
	31,668	24,960
	=====	=====
Liabilities		
Deposits – key management personnel and their close family members	1,822	1,264
Borrowings and term deposits – Intesa Sanpaolo Group	59,662	115,426
Other liabilities – Intesa Sanpaolo Group	287	317
Financial liabilities at fair value through profit or loss – Intesa Sanpaolo Group	34	11
	_____	_____
	61,805	117,018
	=====	=====
Financial commitments and contingencies		
Undrawn lending commitments – Intesa Sanpaolo Group	502	1,734
Undrawn lending commitments – key management personnel and close family members	155	117
	_____	_____
	657	1,851
	=====	=====

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(all amounts are expressed in thousands of KM, unless otherwise stated)

36. RELATED-PARTY TRANSACTIONS (continued)

	31 December 2013	31 December 2012
	<u> </u>	<u> </u>
Income		
Interest income – key management personnel and close family members	36	39
Interest income – Intesa Sanpaolo Group	68	429
Other Income – Intesa Sanpaolo Group	40	111
	<u> </u>	<u> </u>
	144	579
	<u> </u>	<u> </u>
	31 December 2013	31 December 2012
	<u> </u>	<u> </u>
Expenses		
Interest expense – key management personnel and close family members	118	59
Interest expense – Intesa Sanpaolo Group	1,508	5,085
Other expenses – Intesa Sanpaolo Group	3,118	2,324
	<u> </u>	<u> </u>
	4,744	7,468
	<u> </u>	<u> </u>

The remuneration of key management personnel were as follows:

	31 December 2013	31 December 2012
	<u> </u>	<u> </u>
Net salaries for key management personnel	489	489
Taxes and contributions on net salaries	481	463
Bonuses to management	295	432
Compensation for Supervisory Board members	29	36
Other management benefits	91	69
	<u> </u>	<u> </u>
	1,385	1,489
	<u> </u>	<u> </u>

Intesa Sanpaolo Banka, d.d. BiH
Notes to the financial statements (continued)
(all amounts are expressed in thousands of KM, unless otherwise stated)

37. MANAGED FUNDS

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

	31 December 2013	31 December 2012
	_____	_____
Liabilities		
Government organisations	8,971	9,015
Associations and Agencies	2,443	2,308
Banks and insurance companies	-	3,515
Other	433	445
	_____	_____
Total	11,847	15,283
	_____	_____
Assets		
Loans to companies	11,276	14,614
Loans to citizens	464	492
	_____	_____
Total	11,740	15,106
	_____	_____
Amounts due to original creditors – managed funds (Note 30)	107	177
	=====	=====