UniCredit Bank

Listen,
understand,
respond.

2013 Annual Report

15 years UniCredit

This report expresses UniCredit's approach to banking by telling everyday stories about our interactions with Customers, innovations in products and adaptability in services.

These brief but meaningful stories come directly from our colleagues. They are examples of the tangible benefits and concrete solutions offered by UniCredit, demonstrating how we make a difference in people's lives.

Our clear goal to improve everyday circumstances is rooted in our complete commitment to outcomes that ensure Customer satisfaction.

At UniCredit, listening to our Clients and engaging with them to offer simple, direct results lies at the heart of our commercial banking operations. It is part of our determined effort to contribute to the economic and social well-being of our Customers as well as the communities where we work.

We will continue with this commitment to all of you, every day.

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Director's report

IVAN VLAHO
Director

"...we begin 2014 stronger and better prepared to meet the expectations of all stakeholders and ensure added value for each individual, society and local community in which we operate."

Dear clients, shareholders and business partners,

It is my pleasure to inform you that UniCredit Bank d.d. Mostar (hereinafter referred to as the "Bank") has successfully completed one more financial year, confirming its leading position in the Bosnia and Herzegovina's market, according to majority of operating indicators. Therefore, we begin 2014 stronger and better prepared to meet the expectations of all stakeholders and ensure added value for each individual, society and local community in which we operate.

The Bank completed 2013 with a net profit of KM 55 milion, KM 2 milion more than last year, which once again confirms its stability and strength. Thereby, we managed to maintain continuation of our sustainable growth and development, along with improvement of cost efficiency.

The Bank's assets show the stability of value at KM 3,729 million, whilst total net loans amounted to KM 2.311 million with the corresponding growth of 1.3% in comparison to the previous year. As for the deposits of clients, we are closing the year with the amount of KM 2,724 million.

A strong capital base is further strenghtened in 2013, total capital is in the amount of KM 578.8 million with a growth of 10.6% in comparison to the previous year. The capital adequacy of 20.0% corroborates a clear approach in the business operations of the Bank. The ratio of net loans and deposits of 84.9% additionally confirms stability and self-sustainability of our business operations by financing credit activities from our own sources. Actual results are important for several reasons. First of all, we confirmed the success and expertise of our business model, which proved to be enough of quality to overcome the challenges of operating in a challenging economic - political environment of Bosnia and Herzegovina, where there are still areas for improvement in terms of strengthening the economy and living standards.

By applying the highest quality banking practices, with continuous investment in innovation and effective cost management, we managed to meet the needs of customers and markets for quicker and easier business solutions in the modern life, which is confirmed by the figure of over 900,000 retail clients and over 3,600 corporate clients, who are confident in our bussines.

As every year, we have been dedicated to the development of the local community, focusing primarily on improving the quality of life in our country, through the support of projects in the arts and sports, as well as efforts in the protection of natural beauty and raising environmental awareness of citizens of Bosnia and Herzegovina. The Bank has in the past year been awarded numerous awards from renowned national and international institutions, and thus awarded Crystal Prism for Best Bank in Bosnia and Herzegovina, three awards Golden BAM (for total assets, total capital and return on share equity), and portal Posao.ba declared the Bank as one of the 10 most attractive employers in Bosnia and Herzegovina. We have been declared by Euromoney, one of the world's leading business magazines as the best bank in Bosnia and Herzegovina. Also, on the basis Euromoney survey of transactional business for the year 2013, the Bank has been declared the best bank for transaction services in Bosnia and Herzegovina.

We will continue with further development in 2014. Aware of the fact that our development is based on strengthening the satisfaction of our clients, we will continue to truly understand the needs of clients in real life, and to offer banking solutions that surpass expectations in terms of simplicity, quality and timeliness. We have the capacity to be even more powerful generator of the economy of Bosnia and Herzegovinia and to financially support all the good projects in our country, while taking into account the safety of our clients.

In addition to the development of high quality banking products, we continue to invest in the development and training of our employees, aware that the strength of the institution relies on the people. I look optimistic to the year ahead. Our vision of development in 2014 is clear: to be better in every way to the benefit of our clients, shareholders, business partners and local communities.

I firmly believe in achieving these goals. Finally, on behalf of the Management Board, I would like to thank to our clients and business partners on their trust and loyalty. Our success is the result of the dedicated work of the all employees of the Bank and my special gratitude goes to all of them.

Sincerely yours,

Ivan Vlaho
Director

Choose

The best ways to bank.

Customers want everything a modern bank can offer, without actually having to go to a branch. To meet this need, we have become the first bank in Germany to integrate the benefits of in-branch and online banking. The online branch offers our Customers a personal relationship manager, long opening hours and the consulting expertise of a classical branch office.

Customers may choose from different modes of access: by phone or via online video link. Documents may be presented and processed live on screen while using the highest safety standards in place.

The online branch provides personal, competent consultancy irrespective of place and time.

HVB Online Branch - HypoVereinsbank - GERMANY

Economic environment in Bosnia and Herzegovina

Macroeconomic situation

2013 was marked by a moderate recovery in economic activity and the fiscal consolidation which created the basis for a slight economic growth. The main driver of economic activity is an increase in industrial production and exports, partly due to low base value from the previous year, while local demands and personal consumption still do not record a significant recovery. Unemployment remains high, however, the recovery in economic activity and conditions of labor market, resulted in the gradual opening of workplaces and droping an unemployment rate by the end of the year.

The combination of these effects in correlation with moderate improvements in the external economic environment and an increase in foreign exchange will be reflected as well in 2014, in which it expects moderate economic growth. This optimism is based on the assumption that the reforms relating to redirection of public costs to the areas that support economical growth and improvement the business environment will be needed, which is essential for opening new work places.

Gross domestic product: Economic trends are characterized by moderate economical growth during 2013, mainly as a result of industrial production and export growth with a focus on energy and infrastructure projects. Growth in the construction sector also contributed to the overall growth in economic activity, due to infrastructure projects in road construction, mining and energy. Despite some improvement in economic activity, unemployment is still very high. This confirms that are needed a deeper structural reforms in the regulation of the labor market in order to achieve a higher level of economic activity and employment. Exactly these economic indicators confirm the fragile and slow recovery with real GDP increase by 0.9% in 2013.

Consumer prices: Consumer prices recorded deflationary trend conditioned by methodological changes in the section of clothing and footwear, reducing energy and food prices, the decrease in disposable income, and the impact of external movements. The average inflation this year was reduced to 0%.

Key macroeconomic indicators in Bosnia and Herzegovina

	2010	2011	2012	2013F
Nominal GDP (KM billion)	25.9	26.8	27.2	27.4
Population (in thousand)	3,843	3,840	3,836	3,835
GDP per capita (in KM)	6,747	6,973	7,090	7,156
Real GDP (annual change, %)	-0.2	1.8	-0.9	0.9
Consumer prices (annual change, %)	3.1	3.1	1.8	-1.0
average	2.2	3.7	2.1	0.0
Monthly wage (annual, %)	1.0	4.4	1.5	0.1
Unemployment rate (registered, %)	42.9	43.3	44.1	44.6
Balance of state budget (in % of GDP)	-2.4	-1.2	-1.9	-2.2
Balance of the current account of balance of payments (in % of GDP)	-5.9	-9.5	-9.2	-7.7
Foreign direct investments (in % of GDP)	2.1	2.5	2.0	3.6
Foreign currency reserves (in KM billion)	6.6	6.7	6.9	7.0
FX rate EUR/KM	1.96	1.96	1.96	1.96
1M EURIBOR, end of period	0.8	1.0	0.1	0.1
average	0.6	1.2	0.3	0.1

Sources: Agency for statistics of Bosnia and Herzegovina, Central Bank of Bosnia and Herzegovina, UniCredit Research, Chief Economist Projection for CEE (2013)

Industrial production: A mild economic recovery in 2013 is mainly the result of growth in industrial production, which grew by 6.7% due to an increase of electricity production, production of capital goods and intermediate goods.

Foreign trade and current account of balance of payments: Despite the faster growth of exports compared to imports of goods this year, deficit of the current account in relation to GDP is still at a high level, as a result of high unemployment, weak income growth and also the poor investment climate. At the end of 2013, there was increase of goods export of 6.6%, compared to last year, while goods imports are moving at low levels with a decrease of 0.5% compared to last year. Statistical changes in the scope of the so-called "lohn" deals, where goods remain in the same person's ownership, including a low share of these deals in the total export of services, has affected the projection of this year's deficit in the current account of payments balance, whose projection is 7.7% vs. GDP.

State Budget: Fiscal adjustment on the expenditure side of the budget in 2012 resulted in a lower budget deficit, which amounted to 1.9% of GDP. Despite the improving fiscal discipline, at the end of the 2013 it is expected slight increase in the deficit to 2.2% of GDP, mainly due to decrease of net revenues from indirect taxes. Despite the growing fiscal deficit it is noticeable that this macroeconomic indicator remains on appropriate levels in relation to GDP. Fiscal deficit creates the conditions for greater discipline in the management of public expenditure, but the continuation of the stand-by Arrangement with the IMF and the possible extension of the new arrangements will be important to the overall economic stability in 2014.

Stand-by arrangement with IMF and Credit rating: The Council of Ministers of Bosnia and Herzegovina has started a debate on the extension of the stand-by arrangement with the IMF. Compliance with the requirements of the stand-by arangement is particularly important given the fact that the obligations to the IMF in 2014 amounted to SDR 146.3 million (EUR 168.4 million). The IMF has initiated a process of accepting requests from the Government to expand the program, which is important also for the general elections that would be held in October 2014. Rating of Bosnia and Herzegovina remained unchanged by Moody's (B3 stable) as well as the S&P (B, with a stable outlook). Political development is still marked by disagreements among the main political actors given the impossibility of reaching an agreement on constitutional changes. The progress report of the European Commission, published in mid-October it was confirmed that this stalemate does not allow the Council of Ministers of Bosnia and Herzegovina to apply for status of candidate for EU membership and creates a potentially negative impact on further reforms.

Assessments by the Bank: Economic trends during of 2014 should be marked as moderate economic growth, accelerated reforms and improving the business climate in the country, as well as favorable conditions in the external economic environment. The positive trend is expected within the real economic sector based on an increase in production of intermediate goods, as well as the production of electricity. Investment projects in the country, especially those related to energy project, the construction of major roads and highways as a part of corridor Vc and border infrastructure can boost the dynamics of economic activity. Personal consumption in the next year shall stay limited by high unemployment and decrease in real disposable income. This confirms that deeper structural reforms in the regulation of the labor market are needed in order to achieve a higher level of economic activity and employment. Estimates of inflation will remain moderate and will gradually increase to 2.1%, and a major factor in determining the increase in consumer prices, with the administrative pricing will be the movement of food prices.

Having in mind one of the lowest VAT rates (17%) in Europe, re-actualising of discussions on its increase, in order to substitute for lower indirect revenues from customs fees, may result in certain volatility of consumer prices.

After Moody's confirmed credit rejtng (B3 stable) as well as the S&P (B, with a stable outlook) in December, compliance with commitments towards IMF will be essential for maintaining the existing level of credit rating by two rating agencies.

Monetary Framework of the Banking System

Monetary policy: The concept of monetary policy of Bosnia and Herzegovina is based and is conducted on the principle of a Currency board. The Currency board in Bosnia and Herzegovina so far, has shown successful in conducting monetary policy. This is indicated by the fact that Bosnia and Herzegovina has a stable exchange rate in relation to the countries of the eurozone and in comparison to other countries, which are also in various ways linked their currencies to the euro. The goal is the realization of the economical stability where the size of currency stability is essential.

Obligatory reserve: During 2013, there was no change of the obligatory reserve rate, the obligatory reserve rate for short-term deposits remained 10%, and for long-term deposits 7%. Despite lending activities, banks' assets on the accounts at the Central Bank of Bosnia and Herzegovina again showed a high amount. Unchanged effects with low interest rates at foreign banks constantly determined high value of commercial banks assets at the account with Central Bank of Bosnia and Herzegovina.

Banking Industry

Financial system in Bosnia and Herzegovina and the role of the banking sector: The financial system is one of the most advanced sector in Bosnia and Herzegovina, and has achieved significant reforms over the previous years, while the banking sector has a key role in the stability of the financial system in Bosnia and Herzegovina and compliance with the relevant frameworks such as the EU directive and the Basel standards. Data available at the end of third quarter 2013, excluding the sector of insurance, indicated that banks' assets made over 93% of the overall financial sector. To development of the financial system contributed start of financing budget deficits through the issue of shares where as the most important customer in the primary market appears the banking sector. In terms of the entities, the Federation of Bosnia and Herzegovina has issued government bonds in the amount of KM 170 million through four auctions, while the Republic of Srpska in three auctions has issued bond in the amount of KM 150 million. In 2013 the total turnover at Sarajevo Stock Exchange decreased by 34.4% compared to last year, with the value of KM 245.2 million, but equity securities made 19.5% of the overall trading volume with increase of 9.9% compared to previous year. At the same time, the turnover at Banja Luka Stock Exchange increased by 44% compared to the last year, with the respective value of KM 375.8 million, as well as a considerable drop in equity securities trading.

Regulatory framework of the banking sector: The introduction of international standards established by the Basel agreements, as well as topics such as the importance of banking regulation, transparency and maintaince of the efficiency of the financial system was marked by international banking framework in the previous year. In regulatory terms, for the banks it is extremely important application of Basel II and III, which should contribute to creating a more resilient banking system, which would provide better security in case of economic shocks and prevent future negative impacts on the economy. News are primarily associated with the stricter requirements relating to minimum requirements on the composition of capital, liquidity ratios, as well as with countercyclical measures, whereby banks will have to be able to raise additional capital in order to ensure the protection of their business in the worsening conditions.

The recommendations of Basel II, in terms of regulation of the banking sector and the standards of the Basel Committee on Banking Supervision, have yet to be fully implemented in both entities of Bosnia and Herzegovina. The Federation of Bosnia and Herzegovina has adopted amendments to the Law on banks and leasings companies, so they comply with the Law on Prevention of Money Laundering at the state level, while the Republic of Srpska has adopted changes and amendments of several decisions, so that they comply with the same law. Both entities also adopted several laws and decisions governing the Institute of guarantee and protection of users of financial services.

Key developments in the banking sector: A the end of September 2013 movement in the banking sector is marked by the annual decrease in profitability as a result of the increase in net provisioning and growth of the total cost, which can be attributed to the significant increase in the Republic of Srpska in relation to the increase in the Federation of Bosnia and Herzegovina. Low interest rates have resulted in a decrease in net interest income, while non-interest income recorded only a slight positive change. The above effects of combined income andexpenses has led to decrease in operating profit at the end of the third quarter of 2013. Total profit after tax amounted to KM 107 million, fueled by positive financial result of KM 176 million in 21 banks, with decrease in profit in 6 banks in the amount of KM 69 million.

At the end of the 2013 the number of banks was reduced to 27 banks (17 in the Federation of Bosnia and Herzegovina and 10 in the Republic of Srpska), because one bank under provisional administration has lost it's banking license. Safety and liquidity of the banking sector is still at a high level, and resulted in significant capital adequacy ratio of 17.0% at the end of the third quarter of 2013 Since the banking sector as a whole has positive business it is expected to continue increase the capital base, with a gradual increase in the capital adequacy ratio in the future.

By analyzing key balance sheet positions of the banking industry, we find slight increase in assets compared to the end of 2012 as a result of deposit growth and an increase in total capital. The increase in balance sheet items is present in both entities with more intensive growth in the Republic of Srpska.

According to statistic data of the Central Bank of Bosnia and Herzegovina, at the end of 2013, the banks' credit activity was increased by 2.9% y/y, with a stronger growth of retail loans, as well as increase of corporate loans initiated by the increase of loans given to non financial private and public companies as well as loans to goverments. The overall lending showed a much greater growth in the Republic of Srpska compared to the Federation of Bosnia and Herzegovina.

Total deposits by the end of 2013 showed a positive annual growth of 6.9%, as a consequence of the growth of retail deposits, corporate deposits initiated by by the increase of deposits given to non financial private and public companies as well as deposits to non profit organisation. In terms of the entities increased deposits in the Federation of Bosnia and Herzegovina and the Republic of Srpska.

Assessment of fundamental developments in 2014: Signs of economic recovery will have a moderate impact on the banking system, which will retain a high level of security with a solid capital base and total capital adequacy ratio well above the prescribed standards. It is expected that developments in the banking system in 2014 will be marked by improvement in profitability, due to the faster growth of revenues, compared to the expected rate of increase in total costs, and a reduction in net provisions.

Given the structure of revenues, growth in net interest income should have a dominant role in contributing to the increase in revenue while continuing orientation banks to domestic sources of financing, expanding the scope of banking services, and strengthening competitiveness. It is expected to have a slight increase in costs due to the need for technical and technological upgrading, with an emphasis on cost efficiency. The need for the development of export-oriented real sector and to strengthen the competitiveness of the domestic economy will produce higher lending to corporate sector, compared to slower growth in household loans. Total movement on the deposit will be initiated by an increase in household deposits, while corporate sector deposits will be to a certain extent affected by the stand-by arrangement pay out dynamics, as well as by developments of both general and local authorities' deposits.

Innovate

Processes and time savings that serve people's goals.

Thanks to us, farmers can now get funds more rapidly. The Ministry of Agriculture has developed a faster method to make state incentive payments, based on a proposal from our bank.
The method is related to an existing program that allows Customers who meet certain requirements to obtain a **fast-track loan**. When the loan is approved, they can access their funds on the same day. This **innovative solution** is **meeting the needs of 87 percent** of farmers.

Legal Support for the Area Corporate Banking
UniCredit Bank Banja Luka - BOSNIA AND HERZEGOVINA

Understand

Customer needs and quick responses.

"I received a call from a new Customer who told me his company's employees were having trouble withdrawing money from ATM machines. I wanted to solve the problem as quickly as possible, so I went that evening to check in person. I found that the ATM was only allowing Customers to insert cards one way.
I helped a Customer who was having trouble withdrawing cash.
But I knew that our ATMs were supposed to allow Customers to insert cards in either direction, so I immediately called the ATM company to resolve the issue. **By quickly responding to a client's problem, everyone was helped**."

Sergey Chekhonadskikh - ZAO UniCredit Bank Ekaterinburg - RUSSIA

Business description

UniCredit Bank d.d. Mostar (the "Bank") is a licensed commercial bank headquartered in Bosnia and Herzegovina.

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

The Bank is serving over 900.000 retail clients and more than 3.600 of corporate clients. The full set of banking services provided by the Bank, includes corporate banking, retail banking, financial institutions, international operations, investment banking.

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

Map of the Branch Network

Retail segment

Organization

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

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

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

The business network is divided into 10 regions, which are further split into agencies located throughout Bosnia and Herzegovina, and as of the end of 2013, there were 85 such agencies.

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

Business in 2013

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

According to 2013 surveys, clients once again demonstrated that they appreciate the unique quality of service and rewarded the Bank's focus on improvement of the client satisfaction.

As an innovative and modern Bank in the market, which follows trends and clients' needs, we would like to make our e-ba and m-ba services even more user-friendly for our new and future clients, and in this segment we constantly work on development and up-grading of applications, improvement of client experience, as well as introducing of additional functionalities, such as an option of e-payment order. At the same time, through special campaigns, we have enabled our e-ba and m-ba clients to carry out financial transactions under more favourable conditions.

In addition to banking products and services, the JES Package, as an anchor product of the Bank, also provides a range of non-banking services and benefits, thus enriching and facilitating the everyday lives and businesses of our clients, which have been recognized by over 100.000 satisfied users.

By listening to the needs of our clients, the Bank has introduced a new deposit product, insured deposits, which combine fixed-term savings and insurance, providing our clients with a double safety.

In the credit card business, a diverse range of card products tailored to the demands of our clients, as well as a wide ATM and EFT POS network enabling access to cash at any time and in any place, giving clients the necessary freedom and flexibility.

Expansion of the ATM network was continued in 2013, and with the total number of 256 ATMs, we have the most extensive and developed network of ATMs in BH, providing our clients with an option of 24/7 fast and simple access to their accounts (account balance check-up, cash pay-out/pay-in, buying pre-paid mobile phone credits).

We are working hard to confirm the reputation of dynamic and modern bank that follows the requirements of the market, considering the needs of its customers and strives to be the number one bank in their eyes.

Corporate and Investment Banking Sector

Corporate and Investment Banking Sector includes:

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

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

Large Enterprises Segment includes:

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

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

- Mostar BC for large enterprises,
- Sarajevo BC for large enterprises, and
- State Administration and Public Institutions BC.

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

Medium Enterprises Segment includes:

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

1 Global Account Management
2 Cross Border Business Management

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

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

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

Markets, Financing and Advising

The organizational unit is divided into three segments: Trading, Corporate Treasury Sales, and Financing and Advising.

Started process of educating the market and clients in 2012 has continued in 2013 with new services and products that Markets, financing and counseling can offer to improve their business with clients. The focus of business organizational unit remains on strengthening the economy and government sectors through transactions and support.

Business in 2013

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

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

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

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

Financial Overview and Business Performance

Financial indicators:

(in KM '000)	31 December 2013	31 December 2012
Total operating income	205,795	200,084
Profit before impairment losses and taxation	85,316	82,179
Profit before tax	63,006	59,936
Profit for the year	55,571	53,450
Equity	578,828	523,493
Loans and receivables from clients	2,311,743	2,281,857
Current accounts and deposits of clients and banks	2,868,657	2,806,679
Total assets	3,729,433	3,744,194
Performance indicators:		
Capital adequacy	20.0%	16.5%
Operating costs in total income	58.5%	58.9%
Return after taxation on equity (ROE)	10.0%	10.7%
Return before taxation on average total assets (ROA)	1.7%	1.6%

Overview of business operations of the Bank

In 2013, the Bank generated KM 55.6 million profit before taxation, which is by KM 2 million (4%) more than in the previous year. Profit growth was a result of higher net interest income, higher fee and commission income, with increased cost effectiveness.

In 2013, the Bank took advantage of a market opportunity for the growth of new and innovative business activities, such as development of direct channels, specially designed loans, and special offers for deposits, which is recognized by clients and resulted in improvement of their satisfaction.

Income and expensses

The income generated by the Bank in 2013 amounted to KM 205.8 million, which was KM 5.7 million (2.9%) above the income generated in the previous year.

In the structure of the Bank's total income, net interest income amounted to 68% (with a decrease of 0.3 pp in comparison to previous year); net fee and commission income amounted to 26.8% (with an increase by 1.2 pp in comparison to previous year), while other income made 5.2%.

Net interest income

The 2013 net interest income amounted to KM 139.9 million, which is 2.4% increase compared to previous year.

The decrease of the interest income is a result of lower market rates and lower interest rates charged on loans to customers, while at the same time, interest expense optimization led to annual growth in net interest income of KM 3.3 million.

Reduction in interest margins and weak demand for loans is still present within the region, while competition in gathering deposits carries more funding costs.

Net fee and commission Income

The net fee and commission income totalled to KM 55.2 million, which was KM 3.9 million or 7.6% above the 2012 level.

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

Net gains from FX transactions and FX differences on conversion of monetary assets and liabilities, and other income

Net gains from FX transactions and FX differences on conversion of monetary assets and liabilities, and other income in 2013 amounted to KM 10.7 million, which was a 12.2% drop compared to previous year. FX gains were decreased by KM 0.4 compared to 2012, while other income was decreased by KM 1 million (significant revenue earned from the sale of the property taken over due to unpaid loans and sale of assets in 2012).

Operating expenses

The 2013 operating expenses amounted to KM 120.4 million, which was KM 2.6 million or 2.2% above the previous year. Increase of costs is result of increased personal and administrative costs.

Personnel costs amounted to KM 53.5 million and compared to 2012 it was increase in the amount of KM 1.2 million (2,3%) compared to previous year, due to salary costs adjustments and higher costs of severance payments, and optimization of the number of employees, at the same time.

Administrative and marketing expenses amounted to KM 37.9 million, an increase of KM 1.4 million (3.9%) compared to the previous year, due to increase of cost of marketing, communications and sponsorship as well as costs of insurance related to insurance of buildings and money.

The share of operating expenses in the total income of 2013 amounted to 58.5%, which was 0.4 pp above the previous year level.

The Bank has achieved a stable and favorable share of operating costs in operating income for the 2013th year of 58.5% which is an improvement of 0.4% comparing to the previous year.

Impairment losses and provisions

Total impairment and provisions costs amounted to KM 22.3 million and they are higher by KM 0.6 milion (0.3%) comparing to 2012 level.

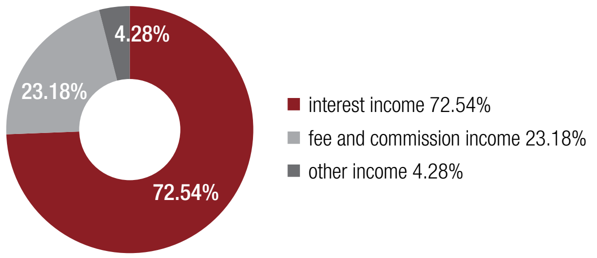
The increase in provisioning costs relates to the current situation in the business environment, where still dominates the prolonged recession and high unemployment.

Impairment losses on loans and receivables from customers amounted to KM 20.4 million and this was KM 3.4 million (14.40%) decrease compared to previous year. Net impairment of loans and receivables resulted from KM 14.8 million new provisioning costs, out of which KM 10.6 million for corporate loans, and KM 4.2 million for retail loans, plus new costs of provisioning for the performing portfolio (KM 5.6 million).

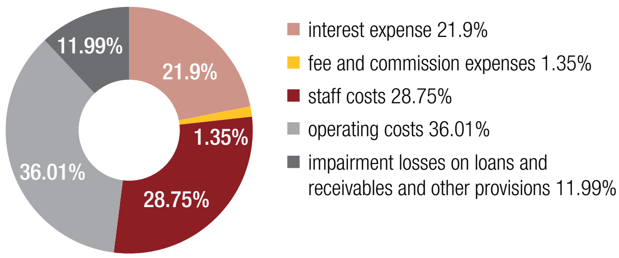
Other impairment and provisioning amounted to KM 1.9 million of additional charges, including off-balance sheet provisioning of KM 0.9 million and allowance for other assets and receivables of KM 1 million.

Income and expenses structure for 2013

Income structure



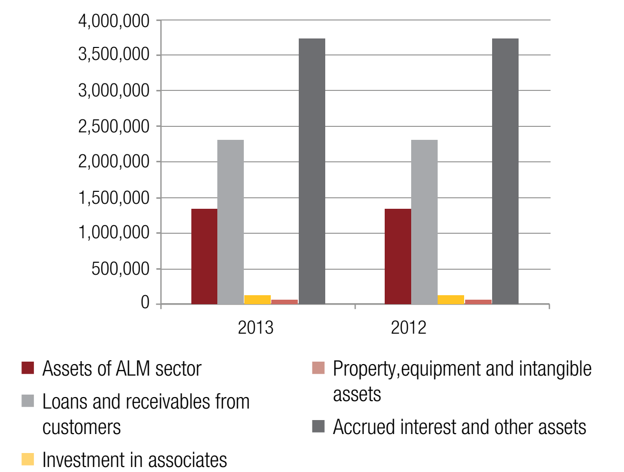
Expenses structure



Assets

As of 31 December 2013, the Bank's assets amounted to KM 3,729 million, which represented decrease in the amount of KM 14.8 milion (0.4%) compared to previous year, mainly because decrease of available cash funds with the Central Bank of Bosnia and Herzegovina.

Assets structure (KM '000)



The above chart shows the assets structure as well as trends in 2013 and 2012.

Asset of ALM sector

These assets consist of: cash and cash equivalents, obligatory reserve and available cash funds with the Central Bank of Bosnia and Herzegovina, loans to and receivables from banks, and securities. Total assets of ALM sector amounted KM 1.317, which is a decrease of 33.1 million (2.4%) compared to the previous year. Participation in the assets of these assets amounted to 35.3%, with a decrease of 0.7 pp compared to the previous year.

Loans to and receivables from to banks still keep the largest share within these assets, as well as cash and cash equivalents, followed by obligatory reserves and securities.

The Bank has maintained throughout the year liquidity considerably above the required limits of the Banking Agency of Federation of Bosnia and Herzegovina and the Central Bank of Bosnia and Herzegovina.

Loans and advances to customers

Gross loans and advances to customers increased by KM 45.6 million on yearly basis, despite the difficult economic situation in the region and lack of investment.

Gross loans to corporates (including state and public institutions) at the end of 2013 amounted to KM 1.208.0 milion and are increased by KM 7.4 milion (0.62%). Their participations in the total portfolio amounted 46.6% and is decreased by 0.5 pp compared to the last year.

Gross loans to citizens at the end of 2013 amounted to KM 1,386 million, and are increased in the amount of KM 38 million (2.8%), despite the high rates of unemployment and lower disposable income due to higher citizens borrowing. Their share in the total portfolio amounts to 53.4% and is increased compared to the previous year by 0.5 pp.

The largest portion in the overall retail loans portfolio referred to long-term all-purpose loans (64.6%), followed by long-term housing loans (20.9%) and receivables based on current accounts (8%) and credit cards (5.4%).

Asset of ALM sector

(in KM '000)	31 December 2013	31 December 2012
Cash and cash equivalents	423,265	469,272
Obligatory reserve with CBBH	243,005	236,965
Loans to and receivables from banks	507,470	510,085
Financial assets available-for-sale	142,933	133,415
	1,316,673	**1,349,737**

The structure of loans and advances to customers:

(in KM '000)	31 December 2013	31 December 2012	Change
Gross loans			
Corporate	1,208,053	1,200,658	0.62%
Retail	1,386,371	1,348,098	2.84%
	2,594,424	**2,548,756**	**1.79%**
Allowance for impairment losses			
Corporate	(190,179)	(180,882)	5.14%
Retail	(92,502)	(86,017)	7.54%
	(282,681)	**(266,899)**	**5.91%**
Net loans			
Corporate	1,017,874	1,019,776	-0.19%
Retail	1,293,869	1,262,081	2.52%
	2,311,743	**2,281,857**	**1.31%**

Long-term loans made 61.3% of the total gross loans, while short-term loans made 38.7%.

Allowance for impairment losses on loans compared to the previous year increased by KM 15.8 million, out of which provisions for corporate loans increased by KM 9.3 million, and provisions for retail loans increased by KM 6.5 million.

The Bank is continually focused on preserving the quality of the loan portfolio are therefore non-performing loans are monitored and adequately secured.

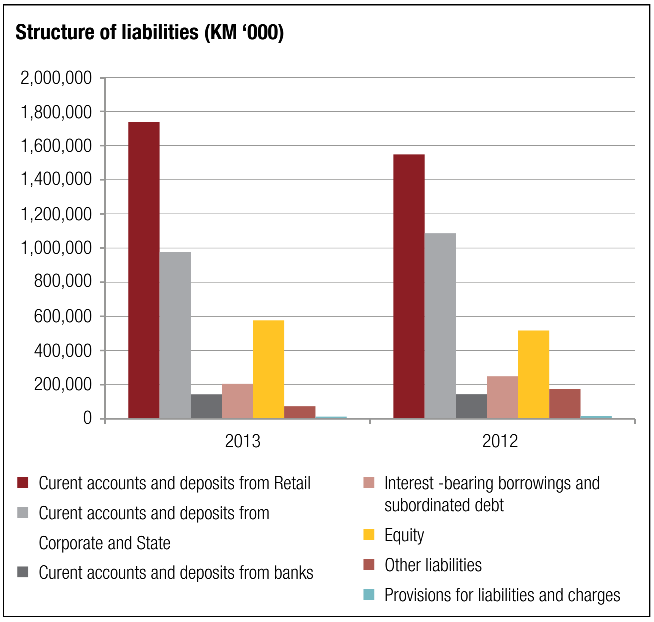
Net loans to customers amounted to KM 2.312 million, recording an increase of KM 29.9 million (1,3%) compared to the previous year.

In terms of structure of corporate deposits (including state and public institutions), they are divided into a vista (81.4%) and term deposits (18.6%). Compared to 2012, the deposit ratio shifted in favour of a vista deposits (growth by 4.9 pp).

Current accounts, savings and term deposits of retail customers at the end of 2013 amounted to KM 1,740 million, and are higher compared to previous year by the amount of KM 177.4 million (11.4%). Their share in total current accounts and customer deposits amounted to 63.9%. Within the total retail deposits, term deposits make up 52.2% and a vista deposits 47.8%. Compared to the previous year, the share of deposits has changed in favor of term deposits of 1 pp.

Liabilities, equity and reserves

Changes in the structure of liabilities, equity and reserves – comparation with previous year:

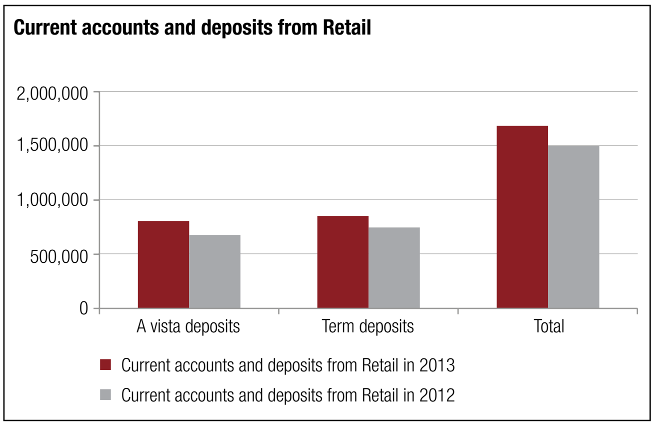


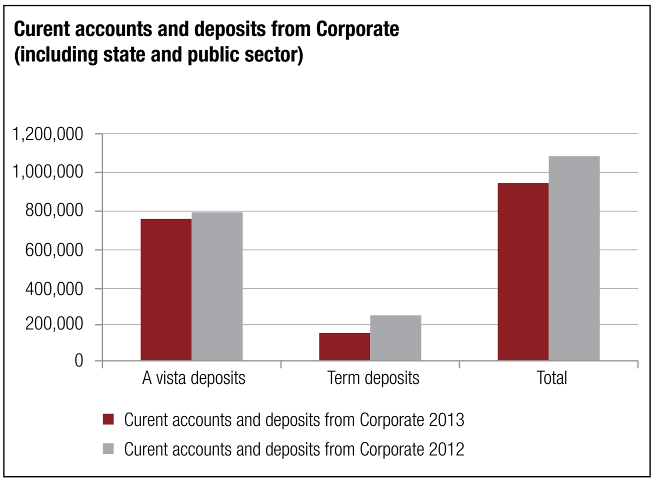
Current accounts and deposits from customers

Total current accounts and deposits from customers in 2013 were increased by KM 70.3 million (2.7%) in comparison to the end of the previous year, and amounted to KM 2,724 million. Current accounts and local currency deposits in local currency made 50% of the total deposit portfolio and is decreased compared to previous year by 3 pp.

Current accounts and deposits of corporate clients and state were decreased by KM 107 million (9.8%), compared to previous year, and amounted to KM 984.4 million, which was 36.1% of the total client deposits.

Structure of current accounts and deposits from customers– comparation with previous year:





Current accounts and deposits and borrowings

Current accounts and bank deposits at the end of 2013 amounted to KM 144.4 million and are decreased by KM 8.3 million (5.5%) compared to the previous year. Borrowings at the end of 2013 amounted to KM 179.8 million and are decreased by KM 34.5 million (16%) compared to the previous year.

Borrowings consist of assets of UniCredit Bank Austria AG, EIB[3], the EBRD[4], UniCredit Bank AG, Foundation for Sustainable Development "OdRaz" (World Bank funds), the Development Bank of the Federation of Bosnia and Herzegovina (LDP and IBF) and HBOR[5]. The share of deposits in total liabilities and equity of the Bank is 3.9%, while the share of borrowings is 4.8%. Comparing to the previous year, the share of deposits and borrowings was reduced by 1.1 pp.

Equity and reserve

Bank's equity amounted to KM 579 million and compared to previous year is increased by KM 55 million, as a result of including the current year profit into Bank's reserves.

Equity and reserves make 15.6% of the total funding (1.5 pp growth in comparison to the end of 2012).

The capital adequacy ratio, presented according to the local regulator methodology, is 20.0%, which is increased compared to prevous year (2012: 16.5%).

The capital adequacy according to the Basel II methodology for 2012 is also significantly above the prescribed limit.

Key performance indicators

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

The efficiency indicator (cost to income ratio) is 58.5% and it's improved by 0.4 pp compared to the previous year, as a result of higher revenue growth compared to the growth of costs.

Net loans to deposits are 84.9%, which indicates stability and self-sustainability, i.e. financing of loans from the Bank's own resources.

Profitability per employee (gross operating profit in relation to the number of employees) is KM 67,5 thousand and it has increased of KM 5 thousand compared to the previous year, as a result of revenue growth and optimization of number of employees.

3 European Investment Bank
4 European Bank for Reconstruction and Development
5 Hrvatska banka za obnovu i razvoj

The impact of the debt crisis

Calming uncertainty about the debt crisis of the members of eurozone and high liquidity in international financial markets are not reflected in the lowering of the cost of government borrowing, which was confirmed at issuing securities in 2013. There is a trend of decreasing the interest rates during 2013, corporate and retail. When it comes to expectations over the next year, it is expected slightly improvement of financing conditions for domestic sectors and recover loans of credit institutions. Terms of financing local sectors could furthermore be affected by movements in risk premiums to be paid on foreign borrowings. The level of the State's budget for 2013 could amount to 2.2% of estimated GDP, which is 0.3 % more than in 2012. The increase was largely due to higher interest expense and a temporary loss of tax revenue. Public debt continued to increase, and at the end of 2013 could amount to 40.3 % of GDP, which is still appropriate level and below 60 % in relation to GDP.

Eurozone recorded economic growth, but the pace of recovery is very weak, with continued deleveraging process in a number of member states. Under conditions of low demand and weak prospects for economic growth, inflation decreased significantly below the inflation target of the ECB. The recovery of private consumption takes place slowly under conditions of high unemployment, lower levels of real income and income of households, and in some countries their high indebtedness. Investment activity of the companies is weak, and the acceleration of it is not expected in the future, due to the uncertainty regarding the outlook for growth in the eurozone economy and high corporate debt in some member states. Lending activity remains extremely weak and has restrictive effect on private demand, especially in the peripheral member states, which are associated with very high credit risk in these countries. In such circumstances, the reintegration of the Eurozone financial markets takes place relatively slowly.

Bearing in mind the fundamental influences, Bosnia and Herzegovina will in 2013 be able to achieve a slight growth primarily due to the growth of exports, and then increase could accelerate in the coming year.However, despite improvements in the current conditions, in the economy are still relatively unfavorable, as indicated by the high rate of unemployment.

Financial and monetary stability is preserved through maintaining an environment of low inflation and the Currency Board arrangement still has a high level of reliability and credibility.

Collaborate

More efficiency, better results.

A long-standing Client of UniCredit, had been owned since 2008 by a US private equity fund. The Company consistently recorded good results and after four years, the equity fund began to consider the best options for maximizing its investment. The transaction was quite complex, involving many teams in UniCredit who worked in unison, like an orchestra, to achieve the same objective, that of satisfying all the clients involved.

Our intervention enabled all of the potential buyers to be well supported and the deal was concluded in a very short time, allowing the Company to **continue its growth** path under a new shareholder, also a key Client of UniCredit. The US equity fund managed to achieve **a very successful investment**. One deal, more satisfied Clients.

Working together for the same objective produces excellent results.

CIB Financial Sponsor Solutions - ITALY

Management and Corporate governance

Pursuant to the provisions of the Law on Companies, Law on Banks, and Articles of Incorporation of the Bank, managing bodies comprise: General Assemby, Supervisory Board and Management Board.

General Assembly

The General Assembly is the Bank's supreme managing body. The General Assembly consists of the Bank's shareholders.

The General Assembly method of functioning and decision-making is regulated by the Rulebook on operating of the Bank's General Assembly.

Audited financial statements will be submitted to the General Assembly for approval.

As of 31 December 2013, the Bank had 51 shareholders; the top shareholder was Zagrebačka banka d.d. Zagreb with 78.176 shares, which represented an equity stake of 65.59%.

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

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

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

Supervisory Board

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

The Supervisory Board method of functioning and decision-making is regulated by the Rulebook on operating of the Bank's Supervisory Board.

Members of the Bank Supervisory Board as of 31 December 2013 are:

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

Bank Management Board

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

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

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

The Management Board method of functioning and decision-making is regulated by the Rulebook on operating of the Bank's Management Board.

As of 31 December 2013, the Bank Management Board comprise the following members:

1.	Ivan Vlaho	Director
2.	Hrvoje Lovrić	Executive Director for Retail Banking
3.	Alek Bakalović	Executive Director for Corporate and Investment Banking
4.	Gordan Pehar	Executive Director for Finance management / CFO

Audit Committee

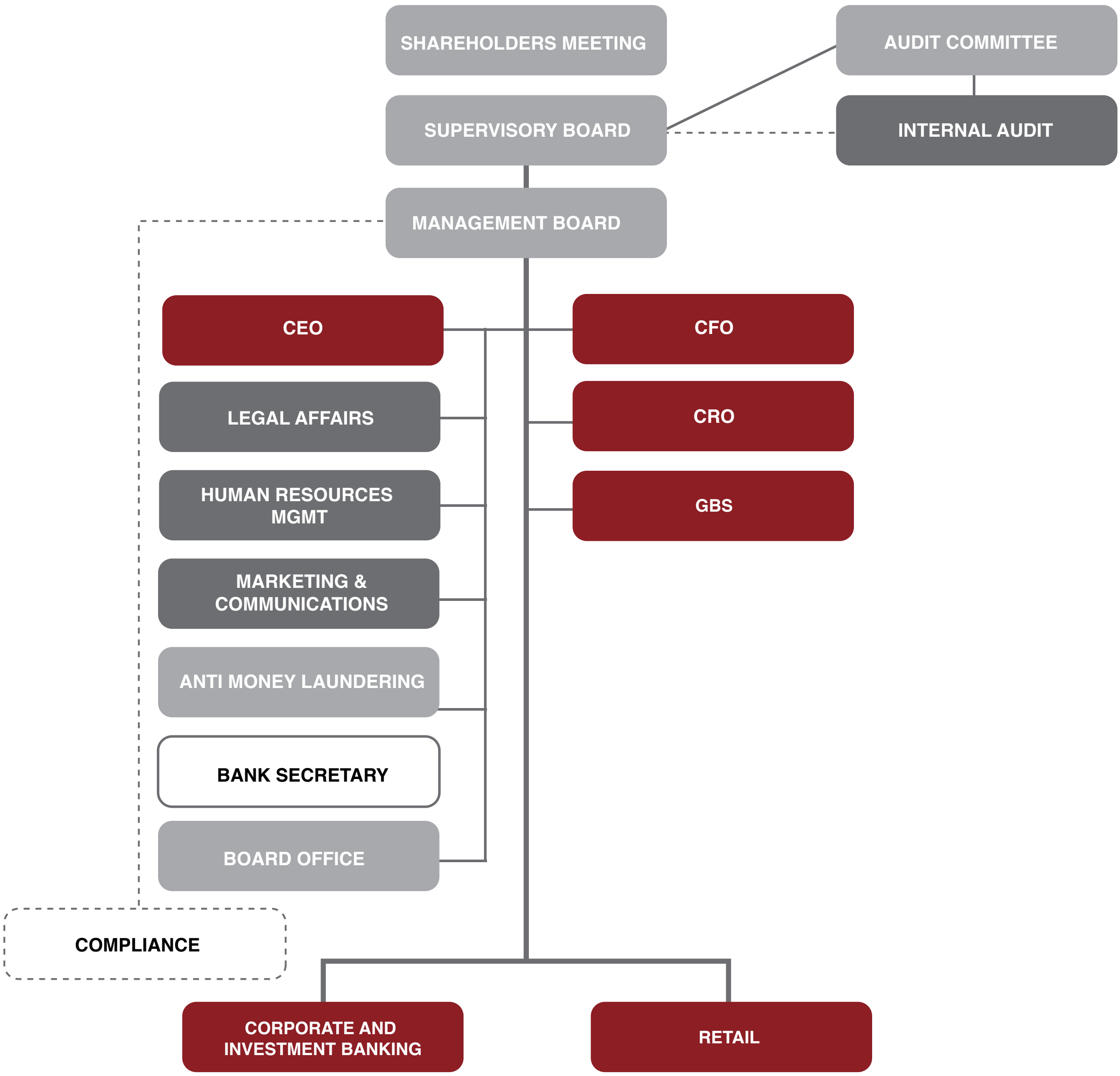
The Audit Committee supervises the work of the internal audit, including appointment of an external audit company which will carry out an audit of the annual financial statements. The Audit Committee has 5 members who are appointed by the Supervisory Board for a period of 4 years.

The Audit Committee method of functioning is regulated by the Rulebook on operating of the Bank's Audit Committee.

As of 31 December 2013, members of the Audit Committee are as follows:

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

Organisational structure of the Bank as of 31 December 2013 - key organisational units of the Bank:



Employees

At the end of 2013, the Bank employe 1,262 persons.

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

Rewarding employee performance

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

1,148 employees were rewarded within the MBO system and performance management system based on the results achieved in 2012.

Top shareholders

As at 31 December 2013, the Bank had the following shareholder structure:

	Shareholders	% Participation of all owned shares	Amount of equity KM 000
1.	Zagrebačka banka d.d., Zagreb, Croatia	65.59%	78,176
2.	UniCredit Bank Austria AG, Vienna, Austria	24.40%	29,079
3.	International Finance Corporation (IFC)	5.73%	6,831
4.	UniCredit S.p.A, Milano, Italy	3.27%	3,900
5.	Other shareholders	1.01%	1,209
	TOTAL	**100%**	**119,195**

There were no changes in the shareholder structure compared to previous year.

Responsibility for the financial statements

Pursuant to the Law on Accounting and Audit of Federation of Bosnia and Herzegovina (Official Gazette No. 83/09), the Management Board is responsible for ensuring that financial statements are prepared for each financial period in accordance with International Financial Reporting Standards (IFRS) which give a true and fair view of the state of affairs and results of UniCredit Bank d.d. (the “Bank”) for that period. IFRS are published by the International Accounting Standards Board (IASB).

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

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

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

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

Signed on behalf of the Management Board

Director Ivan Vlaho	Chief Financial Officer Gordan Pehar

UniCredit Bank dd Mostar
Kardinala Stepinca bb
88000 Mostar
Bosnia and Herzegovina

14 February 2014

Independent Auditors' report

To the shareholders of UniCredit Bank d.d. Mostar:

We have audited the accompanying financial statements of UniCredit Bank d.d. Mostar (the "Bank"), which comprise of the statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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.

Auditor's responsibility

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

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

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

Opinion

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

Other matter

Financial statements of the Bank for the year ended as of 31 December 2012 were audited by another auditor who expressed unmodified opinion as of 23 April 2013

Deloitte d.o.o.

Sead Bahtanović, director and licensed auditor

Sabina Softić, partner and licensed auditor

Sarajevo, Bosnia and Herzegovina

14 February 2014

Simplify

The bank within easy reach.

Today's Customers have less time to go to the branch, even though their needs are the same as ever. They need high-tech ways to access their bank services at any time, in any place.
The answer to their needs? **Subito Banca**, which includes an app designed with input from our Customers. It facilitates a wide range of online banking processes and offers an opportunity to **buy new Samsung smartphones and tablets at discounted prices**.

Transactional Products and Partnerships
UniCredit - ITALY

Facilitate

Finding solutions to make everything easier.

"Due to an internal bug, one of my Customers received funds to pay staff salaries two days late.
I did everything I could to find a solution. I asked my colleagues for help, and together we came up with a response: we compensated for the two lost days in their wages the next month. The Customer called to thank me for solving the issue quickly.
We showed that our **bank is easy to deal with**."

Peter Tschöp - Financial Institutions Group - CIB Global Division
UniCredit Bank Austria

Statement of profit or loss and other comprehensive income for the year ended 31 December 2013

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

	Notes	2013	2012
Interest and similar income	6	180,671	185,410
Interest expense and similar charges	7	(40,737)	(48,745)
Net interest income		**139,934**	**136,665**
Fee and commission income	8	57,723	53,864
Fee and commission expenses	9	(2,519)	(2,582)
Net fee and commission income		**55,204**	**51,282**
Dividend income		**9**	**10**
Net gains from foreign exchange trading and translation of monetary assets and liabilities	10	9,518	9,904
Net gains on investment securities		-	47
Other income	11	1,130	2,176
Operating income		**205,795**	**200,084**
Depreciation and amortization	22,23	(13,885)	(14,079)
Operating expenses	12	(106,594)	(103,826)
Profit before impairment losses and taxation		**85,316**	**82,179**
Impairment losses and provisions, net	13	(22,310)	(22,243)
Profit before taxation		**63,006**	**59,936**
Income tax expense	14	(7,435)	(6,486)
NET PROFIT		**55,571**	**53,450**
Other comprehensive income:			
Net change in fair value of financial assets available-for-sale		(236)	(263)
TOTAL COMPREHENSIVE INCOME		**55,335**	**53,187**
Basic and diluted earnings per share (KM)	32	467.24	449.41

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

Statement of financial position as at 31 December 2013

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

	Notes	31 December 2013	31 December 2012
ASSETS			
Cash and cash equivalents	15	423,265	469,272
Obligatory reserve at the Central Bank of B&H	16	243,005	236,965
Loans to and receivables from banks	17	507,470	510,085
Financial assets available-for-sale	18	142,933	133,415
Financial assets at fair value through profit or loss	19	56	5
Loans and receivables from customers	20	2,311,743	2,281,857
Income tax prepayment		-	68
Other assets and receivables	21	33,427	35,554
Property and equipment	22	53,271	58,867
Intangible assets	23	14,263	18,106
TOTAL ASSETS		**3,729,433**	**3,744,194**
LIABILITIES			
Current accounts and deposits from banks	24	144,388	152,745
Current accounts and deposits from customers	25	2,724,269	2,653,934
Financial liabilities at fair value through profit or loss	19	49	4
Borrowings	26	179,832	214,342
Subordinated debt	27	19,702	19,710
Issued debt securities	28	-	100,351
Other liabilities	29	67,861	65,090
Provisions for liabilities and charges	30	12,820	13,097
Current tax liability		282	-
Deferred tax liability	14	1,402	1,428
TOTAL LIABILITIES		**3,150,605**	**3,220,701**
EQUITY			
Share capital	31	119,195	119,195
Treasury shares		(81)	(81)
Share premium		48,317	48,317
Revaluation reserve for securities		34	270
Regulatory reserves for credit losses		20,682	20,682
Retained earnings		390,681	335,110
TOTAL EQUITY		**578,828**	**523,493**
TOTAL LIABILITIES AND EQUITY		**3,729,433**	**3,744,194**

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

Statement of cash flows for the year ended 31 December 2013

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

	2013	2012
CASH FLOW FROM OPERATING ACTIVITIES		
Interest receipts	181,037	186,512
Fee and commission receipts	57,757	53,939
Interest payments	(38,962)	(50,486)
Fee and commission payments	(2,474)	(2,458)
Operating expenses paid	(99,269)	(106,275)
Net receipts from trading activities	9,512	9,949
Other receipts	1,129	2,177
Net cash inflow from operating activities before changes in operating assets and liabilities	**108,730**	**93,358**
(INCREASE) / DECREASE IN OPERATING ASSETS:		
Obligatory reserve with Central Bank of B&H	(5,997)	(8,280)
Loans to and receivables from banks	(3,432)	91,323
Loans and receivables from customers	(50,129)	(75,105)
Other assets	(18)	(5,877)
Net (increase) / decrease in operating assets, net	**(59,576)**	**2,061**
INCREASE / (DECREASE) IN OPERATING LIABILITIES:		
Current accounts and deposits from banks	(8,322)	25,015
Current accounts and deposits from customers	75,629	178,340
Other liabilities	(6,347)	(3,925)
Net increase in operating liabilities, net	**60,960**	**199,430**
Net cash inflow from operating activities before income tax paid	**110,114**	**294,849**
Income tax paid	(7,085)	(8,410)
Net cash from operating activities	**103,029**	**286,439**
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(2,282)	(5,667)
Proceeds from sale of property and equipment	497	2,361
Acquisition of intangible assets	(2,749)	(5,765)
Receipts on redemption of financial assets available-for-sale	54,197	87,267
Purchases of financial assets available-for-sale	(63,718)	(149,415)
Dividend receipts	9	10
Net cash used in investing activities	**(14,046)**	**(71,209)**

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

CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of issued debt securities	(100,000)	-
Proceeds from interest bearing borrowings	6,985	3,833
Repayment of interest bearing borrowings	(40,826)	(33,419)
Net cash used in financing activities	**(133,841)**	**(29,586)**
Net cash (outflow) / inflow	**(44,858)**	**185,644**
Effect of foreign exchange rate changes on cash and cash equivalents	(1,149)	435
Net increase/(decrease) in cash and cash equivalents	(46,007)	186,079
Cash and cash equivalents at the beginning of the year	**469,272**	**283,193**
Cash and cash equivalents at the end of the year	**423,265**	**469,272**

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

Statement of changes in equity
for the year ended 31 December 2013

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

	Share capital	Treasury shares	Share premium	Revaluation reserve for securities	Regulatory reserves for credit losses	Retained earnings	Total
Balance as at 1 January 2012	**119,195**	**(81)**	**48,317**	**533**	**20,682**	**281,660**	**470,306**
Net profit for the year	-	-	-	-	-	53,450	53,450
Change in fair value of financial assets available-for-sale	-	-	-	(292)	-	-	(292)
Deferred tax on financial assets available-for-sale (Note 14)	-	-	-	29	-	-	29
Other comprehensive income	-	-	-	*(263)*	-	-	*(263)*
Total comprehensive income	**-**	**-**	**-**	**(263)**	**-**	**53,450**	**53,187**
Balance as at 31 December 2012	**119,195**	**(81)**	**48,317**	**270**	**20,682**	**335,110**	**523,493**
Net profit for the year	-	-	-	-	-	55,571	55,571
Change in fair value of financial assets available-for-sale	-	-	-	(262)	-	-	(262)
Deferred tax on financial assets available-for-sale (Note 14)	-	-	-	26	-	-	26
Other comprehensive income	-	-	-	*(236)*	-	-	*(236)*
Total comprehensive income	**-**	**-**	**-**	**(236)**	**-**	**55,571**	**55,335**
Balance as at 31 December 2013	**119,195**	**(81)**	**48,317**	**34**	**20,682**	**390,681**	**578,828**

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

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

1. Reporting entity

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

2. Summary of significant accounting policies

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board.

2.2 Going concern

The financial statements have been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

2.3 Basis of preparation

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

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liabilty at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such basis, except for measurement that have some similiarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The financial statements are presented in Convertible marks since that are the functional currency of the Company. The Convertible mark (KM) is officially tied to the Euro (EUR 1 = KM 1.95583).

2. Summary of significant accounting policies (CONTINUED)

2.3 Basis of preparation (CONTINUED)

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Information on amounts where significant uncertainty exists in their estimate and critical judgments in applying accounting policies that have the most impact on the amounts disclosed in these financial statements are disclosed in Note 4.

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

2.4 Interest income and expense

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

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

2.5 Fee and commission income and expense

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

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

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

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

2. Summary of significant accounting policies (CONTINUED)

2.6 Employee benefits

On behalf of its employees, the Bank pays personal income tax and contributions for pension, disability, health and unemployment insurance, on and from salaries, which are calculated as per the set legal rates during the course of the year on the gross salary. The Bank pays the tax and contributions in the favour of the institutions of the Federation of Bosnia and Herzegovina (on federal and cantonal level) and the Republic of Srpska.

In addition, transport allowances, meal allowances and vacation bonuses are paid in accordance with the local legislation. These expenses are recognized in the statement of profit or loss and comprehensive income in the period in which the salary expense is incurred.

2.6.1 Long-term employee awards

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

2.6.2 Other employee benefits

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

2.7 Foreign currency translation

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

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

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

2. Summary of significant accounting policies (CONTINUED)

2.8 Cash and cash equivalents

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

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

2.9 Financial instruments

Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially recognized at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets or financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets and financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

2.9.1 Financial assets – classification and valuation

Financial assets are recognized and derecognized on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the instrument within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS), and 'loans and receivables'.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

a) Method of effective interest rate

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for financial instruments: 'available-for-sale' and 'loans and receivables'.

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

2. Summary of significant accounting policies (CONTINUED)

2.9 Financial instruments (CONTINUED)

2.9.1 Financial assets – classification and valuation (CONTINUED)

b) Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified as at FVTPL when the financial asset is either held for trading, when 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 at FVTPL by Management at initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 37.

2. Summary of significant accounting policies (CONTINUED)

2.9 Financial instruments (continued)

2.9.1 Financial assets – classification and valuation (CONTINUED)

c) Financial assets available-for-sale ("AFS")

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

Financial assets available-for-sale are measured initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequent to initial recognition available-for-sale financial assets are measured at fair value, except for equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are stated at cost, less impairment. Fair value is determined in the manner described in Note 37.

Gains and losses arising from changes in fair value are recognized directly in equity in the revaluation reserve for securities with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in profit or loss for the period.

Dividends on financial assets available-for-sale are recognized in profit or loss when the Bank's right to receive payments is established.

The fair value of financial assets available-for-sale denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting period date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognized in profit or loss, and other changes are recognized in equity.

d) Loans and receivables

Loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivable arise when the Bank provides money directly to a debtor with no intention of trading with the receivable or disposal in the near future.

Loans and receivables are initially recognized at fair value plus incremental costs. After initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Loans and receivables include loans to and receivables from banks, loans and receivables from customers, cash and cash equivalents, and obligatory reserves with CBBH.

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

2. Summary of significant accounting policies (CONTINUED)

2.9 Financial instruments (CONTINUED)

2.9.2 Impairment of financial assets

a) Financial assets carried at amortised cost

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

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

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

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

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

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

2. Summary of significant accounting policies (CONTINUED)

2.9 Financial instruments (CONTINUED)

2.9.2 Impairment of financial assets (CONTINUED)

a) Financial assets carried at amortised cost (CONTINUED)

The carrying value of the asset is reduced through an allowance account and the amount of loss is recognized through profit or loss. If loan and receivable have a variable interest rate, the discount rate for determining the impairment loss is the current effective interest rate.

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 recognized (such as an improvement in the debtor's credit worthiness), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

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

b) Financial assets available-for-sale

In the case of financial assets available-for-sale, a significant or prolonged decline in the fair value of the investment below its acquisition cost is additionally considered in determining whether the assets are impaired.

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

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

Exceptions from above are equity securities classified as available-for-sale for which there is no reliable measure of fair value. The Bank assesses at each reporting date whether there is objective evidence that a financial asset or such group of financial assets is impaired. An impairment loss is calculated as the difference between the carrying amount of the financial asset and the present value of expected future cash flows discounted by the required market return for similar financial assets. Impairment losses on such instruments, recognised in profit or loss, are not subsequently reversed through profit or loss.

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

2. Summary of significant accounting policies (CONTINUED)

2.9 Financial instruments(CONTINUED)

2.9.3 Derecognition of financial assets

Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank continues to recognize the financial asset.

On derecognition of a financial asset the difference between the carrying amount of the asset, and the sum of the consideration received and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

2.9.4 Financial liabilities and equity instruments issued by the Bank

a) Classification

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

Equity instruments

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

Financial guarantee contract liabilities

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

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

Financial liabilities

Financial liabilities are classified as either financial liabilities ‘at FVTPL’ or ‘other financial liabilities’.

Financial liabilities at fair value through profit or loss (“FVTPL”)

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

2. Summary of significant accounting policies (continued)

2.9 Financial instruments(continued)

2.9.4 Financial liabilities and equity instruments issued by the Bank (continued)

a) Classification (continued)

Financial liabilities at fair value through profit or loss (continued)

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 37.

Other financial liabilities

Other financial liabilities, including current and deposit account, issued debt securities, subordinated debt and borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

b) Derecognition of financial liabilities

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

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

2. Summary of significant accounting policies (CONTINUED)

2.9 Financial instruments(CONTINUED)

2.9.5 Offsetting

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

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

2.9.6 Derivative financial instruments

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

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

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

2. Summary of significant accounting policies (CONTINUED)

2.10 Property and equipment

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

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

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

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

Buildings	2%
Computers	20% - 25%
Other equipment	10%-20%

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

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

2.11 Intangible assets

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

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

Software	20%
Leasehold improvement	Over the renting period
Other intangible assets	20%

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

2. Summary of significant accounting policies (CONTINUED)

2.12 Taxation

The income tax charge is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

2.12.1 Current income tax

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.

2.12.2 Deferred income tax

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

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

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

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

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

2.13 Impairment of non-financial assets

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

2. Summary of significant accounting policies (CONTINUED)

2.13 Impairment of non-financial assets (CONTINUED)

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

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

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

2.14 Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting period date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Provisions are released only for such expenditure in respect of which provisions are recognized at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

2.15 Equity and reserves

2.15.1 Share capital

Share capital represents the nominal value of paid-in ordinary and preference shares and is denominated in KM.

2.15.2 Treasury shares

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

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

2. Summary of significant accounting policies (CONTINUED)

2.15 Equity and reserves (CONTINUED)

2.15.3 Regulatory reserves for credit losses

Regulatory reserves for credit losses are recognized in accordance with regulations of the Banking Agency of Federation of Bosnia and Herzegovina. Regulatory reserves for credit losses are non-distributable.

2.15.4 Retained earnings

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

2.15.5 Revaluation reserve for securities

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

2.15.6 Dividends

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

2.16 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.

2.17 Managed funds for and on behalf of third parties

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

2.18 Segment reporting

PA business segment is a distinguishable component of the Bank that is engaged in business activities, which may result in revenue or expenses. The Bank has identified four primary business segments: Retail, Corporate and Investing Banking, Assets and Liabilities Management, and Central Unit.

Segmental results are measured inclusive of the application of internal transfer prices, based on specific prices, appropriate currencies and maturities, with embedded additional adjustments.

Segmental business result are regularly monitored by the Management and Supervisory Board, based on management financial information.

2. Summary of significant accounting policies (CONTINUED)

2.19 Earnings per share

The Bank publishes basic and diluted earnings per share (EPS) data. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. During 2012 and 2013 there were no dilution effects.

2.20 Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

During 2012 and 2013, there were neither qualifying assets nor capitalized borrowing costs.

2.21 Assets acquired in lieu of uncollectible receivables

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

3. Adoption of new and revised standards

3.1 Standards and Interpretations effective in current period

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board are effective for the current period:

- IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 12 "Disclosures of Interests in Other Entities" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013);
- IAS 27 (revised in 2011) "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013),
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2013);

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

3. Adoption of new and revised standards (CONTINUED)

3.1 Standards and Interpretations effective in current period (CONTINUED)

- Amendments to IFRS 1 "First-time Adoption of IFRS" – Government Loans (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities" – Transition Guidance (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IAS 1 "Presentation of financial statements" – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
- Amendments to IAS 19 "Employee Benefits" – Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- Amendments to various standards "Improvements to IFRSs (cycle 2009-2011)" resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2013),
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after 1 January 2013).

The adoption of these standards, amendments to the existing standards and interpretations has not led to any changes in the Bank's accounting policies.

3.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements the following standards, amendments to existing standards and interpretations were in issue, but not yet effective:

- IFRS 9 "Financial Instruments" and subsequent amendments (effective date was not yet determined),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 "Separate Financial Statements" – Investment Entities (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014);
- Amendments to IAS 32 "Financial instruments: presentation" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 36 "Impairment of assets" - Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014);

3. Adoption of new and revised standards (CONTINUED)

3.2 Standards and Interpretations in issue not yet adopted (CONTINUED)

- Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)” resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- Amendments to various standards “Improvements to IFRSs (cycle 2011-2013)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- IFRIC 21 “Levies” (effective for annual periods beginning on or after 1 January 2014).

The Bank has elected not to adopt these standards, amendments and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Bank’s accounting policies, which are described in Note 2, the Management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

4.1 Key sources of estimation uncertainty

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

4.1.1 Useful lives of property and equipment

As described in Note 2.10 above, the Bank reviews the estimated useful lives of property and equipment at the end of each annual reporting period.

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

4. Critical accounting judgments and key sources of estimation uncertainty (CONTINUED)

4.1 Key sources of estimation uncertainty (CONTINUED)

4.1.2 Impairment losses on loans and receivables

As described in Note 2.9.2 above, at each reporting period date, the Bank assessed indicators for impairment of loans and receivables and their impact on the estimated future cash flows from the loans and receivables.

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

The Bank monitors the creditworthiness of its customers on an ongoing basis. The need for impairment of the Bank's on- and off-balance-sheet credit risk exposures is assessed on a monthly basis. Impairment losses are made mainly against the carrying value of loans to corporate and retail customers (summarised in Note 20), and as provisions for liabilities and charges arising from off-balance-sheet risk exposure to customers, mainly in the form of unused loan facilities, guarantees and letters of credit (summarised in Note 33). 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.

		2013	2012
	Note	**KM '000**	**KM '000**
Allowances for impairment losses on credit risk exposure			
Allowances for impairment losses on loans and receivables from customers	20	282,681	266,899
Provisions for off-balance-sheet items	30	7,975	7,184
Allowances for impairment losses on loans to and receivables from banks	17	124	124
Total		**290,780**	**274,207**

4. Critical accounting judgments and key sources of estimation uncertainty (CONTINUED)

4.1 Key sources of estimation uncertainty (CONTINUED)

4.1.2 Impairment losses on loans and receivables (CONTINUED)

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

Financial assets carried at amortised cost

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

In assessing collective impairment the following guidelines are used:

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

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

Non-performing portfolio - calculation in accordance with IFRS

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

(in KM '000)	31 December 2013			31 December 2012		
	Corporate (including state and public sector	Retail	**Total**	Corporate (including state and public sector	Retail	**Total**
Gross exposure	234,366	98,050	**332,416**	230,643	93,805	**324,448**
Impairment rate	73.94%	80.80%	**75.96%**	72.47%	80.08%	**74.67%**

An increase in the impairment rate of 1pp on the gross non-performing loans identified above as impaired at 31 December 2013, would lead to the recognition of an additional impairment loss of KM 3,324 thousand (2012: KM 3,244 thousand).

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

4. Critical accounting judgments and key sources of estimation uncertainty (CONTINUED)

4.1 Key sources of estimation uncertainty (CONTINUED)

4.1.2 Impairment losses on loans and receivables (CONTINUED)

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

Non-performing portfolio – calculation in accordance with FBA regulations

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

(in KM '000)	31 December 2013			31 December 2012		
	Corporate (including state and public sector)	Retail	**Total**	Corporate (including state and public sector)	Retail	**Total**
Gross exposure	189,464	63,671	**253,135**	182,648	64,415	**247,063**
Impairment rate	81.94%	91.55%	**84.36%**	84.17%	89.52%	**85.57%**

An increase in the impairment rate of 1pp on the gross non-performing loans identified above as impaired under FBA regulations at 31 December 2013, would lead to additional provisions of KM 2,531 thousand (2012: KM 2,470 thousand). Under FBA regulations, exposures with installments up to 90 days overdue are treated as performing. In accordanc e with FBA regulations, the Bank also calculates provisions on such performing loans with delays in repayment of up to 90 days, at prescribed rates, in the range from 5% to 15% (risk category B). Impairment allowance at 31 December 2013, recognized for risk category B, amounted to KM 10,071 thousand (2011: KM 11,503 thousand), while gross exposure amounted to KM 91,759 thousand (2012: KM 108,844 thousand).

IBNR

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

The amount of IBNR at 31 December 2013, amounted to KM 37,038 thousand (2012: KM 30,918 thousand) or 1.6% (2012: 1.4%) of loans and receivables from customers and 0.9% (2012: 0.7%) of total on- and off-balance-sheet credit risk exposure to customers, in both cases net of amounts assessed as impaired.

4. Critical accounting judgments and key sources of estimation uncertainty (CONTINUED)

4.1 Key sources of estimation uncertainty (CONTINUED)

4.1.2 Impairment losses on loans and receivables (CONTINUED)

b) Regulatory reserves calculated in accordance with FBA regulations

For the purposes of assessing capital adequacy in accordance with local regulations, the Bank also calculates provisions in accordance with the relevant FBA regulations. In accordance with these regulations, the relevant placements are classified into appropriate risk groups, depending on the past due days, the financial position of the borrower and collateral; and are provided for at prescribed rates.

The regulatory provisions include both specific and general provisions. The general provision is added back as Tier 2 capital in the computation of capital adequacy under FBA rules. The amount of such general provision of KM 58,599 thousand at 31 December 2013 added back as Tier 2 capital exceeds by KM 15,939 thousand the combined amount of regulatory reserves of KM 20,682 thousand excluded from Tier 1 capital and KM 21,978 thousand further deducted from capital at that date (2012: regulatory reserves KM 38,352 thousand).

4.1.3 Legal proceedings

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

As presented in Note 30, the Bank provided KM 3,215 thousand (2012: KM 4,140 thousand), which management estimates as sufficient. It is not practicable to estimate the financial impact of changes to the assumptions based on which management assesses the need for provisions.

4.1.4 Fair value of financial instruments

As described in Note 37, the Management use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial instruments, other than loans, are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates.

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

5. Segment reporting

The segments of the Bank include:

1. “Retail”: individuals, small business and sole traders;
2. “Corporate and Investing Banking”: large and medium corporate clients, state and public sector, financial markets (trading activities)
3. “Assets and Liabilities Management”: asset and liability management;
4. “Central Unit”: other assets and liabilities not assigned to other segments.

Segment reporting is prepared based on management financial information.

Income statement per segment

Year ended 31 December 2013	Retail	Corporate and Investing Banking	Assets and Liabilities Management	Central Unit	Total
Net interest income	107,251	40,320	(5,494)	(2,143)	139,934
Net fee and commission income	40,170	16,010	(969)	(7)	55,204
Dividend income	-	-	-	9	9
Net gains from foreign exchange trading and translation of monetary assets and liabilities	6,495	3,015	6	2	9,518
Other income	191	149	143	647	1,130
Operating income	**154,107**	**59,494**	**(6,314)**	**(1,492)**	**205,795**
Depreciation and amortization	(9,118)	(1,003)	(39)	(3,725)	(13,885)
Operating expenses	(87,877)	(19,968)	(1,152)	2,403	(106,594)
Profit before impairment losses and taxation	**57,112**	**38,523**	**(7,505)**	**(2,814)**	**85,316**
Impairment losses and provisions, net	(6,678)	(14,507)	-	(1,125)	(22,310)
Profit / (loss) before taxation	**50,434**	**24,016**	**(7,505)**	**(3,939)**	**63,006**
Income tax expense	-	-	-	(7,435)	(7,435)
NET PROFIT	**50,434**	**24,016**	**(7,505)**	**(11,374)**	**55,571**

5. Segment reporting (CONTINUED)

Income statement per segment (CONTINUED)

Year ended 31 December 2012	Retail	Corporate and Investing Banking	Assets and Liabilities Management	Central Unit	Total
Net interest income	115,566	42,418	(8,739)	(12,580)	136,665
Net fee and commission income	36,303	16,315	(1,281)	(55)	51,282
Dividend income	-	-	-	10	10
Net gains from foreign exchange trading and translation of monetary assets and liabilities	6,716	3,198	-	(10)	9,904
Net gains on investment securities	-	47	-	-	47
Other income	563	1,028	73	512	2,176
Operating income	**159,148**	**63,006**	**(9,947)**	**(12,123)**	**200,084**
Depreciation and amortization	(9,264)	(1,087)	(37)	(3,691)	(14,079)
Operating expenses	(86,068)	(19,475)	(1,611)	3,328	(103,826)
Profit before impairment losses and taxation	**63,816**	**42,444**	**(11,595)**	**(12,486)**	**82,179**
Impairment losses and provisions, net	(15,766)	(9,058)	-	2,581	(22,243)
Profit before taxation	**48,050**	**33,386**	**(11,595)**	**(9,905)**	**59,936**
Income tax expense	-	-	-	(6,486)	(6,486)
NET PROFIT	**48,050**	**33,386**	**(11,595)**	**(16,391)**	**53,450**

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

5. Segment reporting (CONTINUED)

Statement of financial position per segment

31 December 2013	Retail	Corporate and Investing Banking	Assets and Liabilities Management	Central Unit	Total
Segment assets	1,394,301	908,025	1,170,213	256,894	3,729,433
Total assets	**1,394,301**	**908,025**	**1,170,213**	**256,894**	**3,729,433**
Segment liabilities	1,899,643	801,423	343,616	104,239	3,148,921
Current tax liability	-	-	-	282	282
Deferred tax liability	-	-	-	1,402	1,402
Total liabilities	**1,899,643**	**801,423**	**343,616**	**105,923**	**3,150,605**
Acquisition of property, equipment and intangible assets	-	-	-	5,031	5,031
31 December 2012	**Retail**	**Corporate and Investing Banking**	**Assets and Liabilities Management**	**Central Unit**	**Total**
Segment assets	1,369,396	904,220	1,219,983	250,527	3,744,126
Income tax prepayments	-	-	-	68	68
Total assets	**1,369,396**	**904,220**	**1,219,983**	**250,595**	**3,744,194**
Segment liabilities	1,709,814	921,614	485,779	102,066	3,219,273
Current tax liability					
Deferred tax liability	-	-	-	1,428	1,428
Total liabilities	**1,709,814**	**921,614**	**485,779**	**103,494**	**3,220,701**
Acquisition of property, equipment and intangible assets	-	-	-	11,432	11,432

6. Interest and similar income

Analysis by source

	2013	2012
Retail	117,225	120,175
Corporate	47,219	50,559
State and public sector	15,140	13,100
Banks and other financial institiutions	1,087	1,576
	180,671	**185,410**

Banks and other financial institutions include CBBH.

Analysis by product

	2013	2012
Loans and receivables from customers	174,598	180,268
Debt securities (financial assets available-for-sale)	5,343	3,566
Loans to and receivables from banks	569	1,447
Obligatory reserves and cash reserves with CBBH	161	129
	180,671	**185,410**

Interest income on impaired loans and receivables amounted to KM 1,953 thousand (2012: KM 2,028 thousand).

7. Interest expense and similar charges

Analysis by recipient

	2013	2012
Retail	26,119	24,919
Banks and other financial institutions	7,739	11,465
State and public sector	4,270	7,305
Corporate	2,609	5,063
	40,737	**48,745**

Analysis by product

	2013	2012
Current accounts and deposits from retail customers	26,119	24,913
Current accounts and deposits from corporate, and state and public sector	6,879	12,368
Borrowings	5,003	7,171
Issued debt securities	1,184	2,331
Current accounts and deposits from banks	984	1,250
Subordinated debt	568	712
	40,737	**48,745**

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

8. Fee and commission income

	2013	2012
Credit cards	20,223	20,229
Domestic payment transactions	16,273	14,637
Foreign payment transactions	9,413	8,804
Guarantees	5,578	5,302
Other	6,236	4,892
	57,723	**53,864**

9. Fee and commission expenses

	2013	2012
Foreign payment transactions	941	1,059
Domestic payment transactions	827	809
Other	751	714
	2,519	**2,582**

10. Net gains from foreign exchange trading and translation of monetary assets and liabilities

	2013	2012
Foreign exchange spot trading gains	9,854	10,128
Net foreign exchange loss from translation of monetary assets and liabilities	(2)	(2)
Net losses from FX forwards	(334)	(222)
	9,518	**9,904**

11. Other income

	2013	2012
Income from expenses recharged to customers	323	352
Write-offs of other liabilities and reversal of accrued expenses	223	217
Income from application maintenance	154	184
Net gains on disposal of property and equipment	58	512
Income from claims settled by insurance companies	54	16
Rental income	46	46
Net gains on disposal of assets acquired in lieu of uncollectible receivables	22	658
Other	250	191
	1,130	**2,176**

12. Operating expenses

	2013	2012
Personnel costs	53,491	52,291
Administration and marketing expenses	37,941	36,501
Rental costs	7,615	7,673
Savings deposit insurance expenses	6,312	6,175
State contributions (excluding personnel-related)	695	892
Other expenses	540	294
	106,594	**103,826**

Personnel costs include KM 9,957 thousand of defined contributions paid into the state-owned pension plans (2012: KM 9,900 thousand).

13. Impairment losses and provisions, net

	2013	2012
Loans and receivables from customers (Note 20)	20,365	23,793
Off-balance-sheet exposure to credit risk (Note 30)	826	698
Impairment of tangible assets (Note 22)	82	607
Provisions for legal proceedings (Note 30)	23	(2,713)
Other assets (Note 21)	1,014	(142)
	22,310	**22,243**

14. Income tax expense

Total tax recognized in the income statement may be presented as follows:

	2013	2012
Current income tax	7,435	6,536
Deferred income tax	-	(50)
	7,435	6,486

Adjustment between income tax presented in tax balance and accounting income tax is presented as follows:

	2013	2012
Profit before income tax	**63,006**	**59,936**
Tax calculated at rate of 10%	6,301	5,994
Effects of non-deductible expenses	747	644
Effects of additional income tax from previous years	420	-
Effects of expenses not deducted in prior years	(33)	(102)
Current income tax	**7,435**	**6,536**
Average effective income tax rate	**11.8%**	**10.9%**

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

14. Income tax expense (CONTINUED)

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

	Deferred tax assets	Deferred tax liabilities	Net deferred tax assets / (liabilities)
Balance at 1 January 2012	**-**	**1,507**	**1,507**
Other provisions for loans and receivables from customers through profit or loss	-	(50)	(50)
Change in fair value of financial assets available-for-sale, recognized in other comprehensive income	-	(29)	(29)
Balance as at 31 December 2012	**-**	**1,428**	**1,428**
Change in fair value of financial assets available-for-sale, recognized in other comprehensive income	-	(26)	(26)
Balance as at 31 December 2013	**-**	**1,402**	**1,402**

Balances of deferred tax assets and deferred tax liabilities were as follows:

	31 December 2013	31 December 2012
Deffered tax assets	**-**	**-**
Deffered tax liabilities		
Net deferred tax liability for financial assets available-for-sale	(4)	(30)
Net deferred tax liability for other provisions for loans and receivables from customers	(1,398)	(1,398)
Net deffered tax liabilities	**(1,402)**	**(1,428)**

15. Cash and cash equivalents

	31 December 2013	31 December 2012
Giro account with CBBH	228,679	278,950
Cash in hand	126,592	111,849
Current accounts with other banks	67,886	78,308
Items in the course of collection	108	165
	423,265	**469,272**

16. Obligatory reserve at the central bank of Bosnia and Herzegovina

	31 December 2013	31 December 2012
Obligatory reserve at CBBH	243,005	236,965
	243,005	**236,965**

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

The basis for calculation of obligatory reserve excludes:

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

Required obligatory reserve rates are:

- 10% (2012: 10%) of deposits and borrowings with maturity of up to one year (short-term deposits and borrowings)
- 7% (2012: 7%) on deposits and borrowings with maturity over one year (long-term deposits and borrowings).

17. Loans to and receivables from banks

	31 December 2013	31 December 2012
Placements with other banks	507,523	510,036
Loans to banks	71	173
	507,594	**510,209**
Less: Impairment allowance	(124)	(124)
	507,470	**510,085**

Loans to and receivables from banks included KM 3,334 thousand pledged as collateral for the Bank's liabilities to Visa and MasterCard in respect of credit card operations (2012: KM 3,122 thousand).

Loans to and receivables from banks include KM 64,072 thousand (2012: KM 109,050 thousand) of placements and loans to related parties.

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

	2013	2012
Balance as at 1 January	124	438
Release due to write-offs	-	(314)
Balance as at 31 December	**124**	**124**

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

18. Financial assets available-for-sale

	31 December 2013	31 December 2012
Debt securities available-for-sale	142,717	133,199
Equity securities available-for-sale	216	216
	142,933	**133,415**

During 2012 and 2013, there were no overdue and unpaid financial assets available-for-sale or impairment losses on available-for-sale financial assets.

Debt securities available-for-sale

	31 December 2013	31 December 2012
Bonds of the Government of the Federation of B&H	88,397	85,474
Treasury bills of the Government of the Federation of B&H	13,960	22,025
Treasury bills of the Government of the Republic of Srpska	7,923	10,146
Treasury bills of the Government of the Republic of Croatia	2,937	3,352
Other sovereign bonds	-	12,202
Foreign bank bonds	29,500	-
	142,717	**133,199**

Equity securities available-for-sale

	31 December 2013	31 December 2012
Listed or quoted	214	214
Unlisted or unquoted	2	2
	216	**216**

19. Financial assets and liabilities at fair value through profit or loss

Derivatives classified as held for trading – OTC products (all of them with related parties)

	31 December 2013		31 December 2012	
	Notional amount	Fair value	Notional amount	Fair value
Financial assets				
Forward foreign exchange contracts	5,855	56	1,177	5
Foreign exchange swap contracts	151,143	-	219,143	-
	156,998	**56**	**220,320**	**5**
Financial liabilities				
Forward foreign exchange contracts	4,837	48	568	4
Foreign exchange swap contracts	214	1	-	-
	5,051	**49**	**568**	**4**

20. Loans and advances to customers

	31 December 2013	31 December 2012
Corporate (including state and public sector)		
- in domestic currency	1,165,395	1,157,638
- in foreign currency	42,658	43,020
	1,208,053	*1,200,658*
Retail		
- in domestic currency	1,385,935	1,347,461
- in foreign currency	436	637
	1,386,371	*1,348,098*
Total loans before allowance	**2,594,424**	**2,548,756**
Less: allowance for impairment losses	(282,681)	(266,899)
Net loans	**2,311,743**	**2,281,857**

Included in retail loans in domestic currency is KM 852,580 thousand of gross loans (2012: KM 862,054 thousand), and in corporate loans in domestic currency KM 651,501 thousand (2012: KM 630,490 thousand) which have a EUR countervalue. Repayments of principal and interest are determined with reference to the EUR countervalue and are paid in the KM equivalent translated at the rate applicable at the date of payment.

The movements in allowance for impairment losses are summarized as follows:

	Retail	Corporate	Total
Balance as at 1 January 2012	**74,612**	**178,916**	**253,528**
Increase in impairment losses	26,833	24,445	51,278
Release on the basis of recoveries of amounts previously reserved	(4,267)	(1,168)	(5,435)
Release of provisions due to collection	(10,823)	(11,227)	(22,050)
Impairment losses recognized in the profit or loss (Note 13)	**11,743**	**12,050**	**23,793**
Release due to writte-offs	(499)	(10,470)	(10,969)
Other movements	161	384	545
Effect of foreign exchange	-	2	2
Balance as at 31 December 2012	**86,017**	**180,882**	**266,899**
Increase in impairment losses	23,336	25,287	48,623
Release on the basis of recoveries of amounts previously reserved	(6,391)	(4,083)	(10,474)
Release of provisions due to collection	(10,402)	(7,382)	(17,784)
Impairment losses recognized in the profit or loss (Note 13)	**6,543**	**13,822**	**20,365**
Release due to writte-offs	(162)	(4,781)	(4,943)
Other movements	132	255	387
Effect of foreign exchange	(28)	1	(27)
Balance as at 31 December 2013	**92,502**	**190,179**	**282,681**

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

20. Loans and advances to customers (CONTINUED)

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

	31 December 2013	31 December 2012
Corporate (including state and public sector)		
Manufacturing:		
Metal and mechanical	51,498	47,830
Food and drink	45,097	46,409
Chemicals	34,358	33,980
Wood and paper	31,368	44,704
Electricity, gas and water	24,968	29,461
Textile and leather	23,496	26,593
Electrical and optical equipment	7,183	8,772
Tobacco	5,806	9,639
Other manufacturing	48,413	45,572
	272,187	**292,960**
Retail and wholesale trade	371,487	410,137
Real estate	89,548	27,362
Central and local governments	77,682	69,841
Transport and communications	70,982	83,481
Construction	55,919	60,525
Tourism	32,503	29,504
Health and social care	15,676	6,089
Agriculture, forestry and fisheries	10,421	12,756
Financial intermediaries	4,197	9,378
Education and other public services	3,931	2,323
Other	13,341	15,420
Total corporate	**1,017,874**	**1,019,776**
Retail		
Non-purpose loans	853,398	796,465
Housing loans	268,469	286,743
Other retail loans	172,002	178,873
Total retail	**1,293,869**	**1,262,081**
Total loans and receivables from customers	**2,311,743**	**2,281,857**

21. Other assets and receivables

	31 December 2013	31 December 2012
Receivables from debit and credit cards	30,386	30,478
Assets acquired in lieu of uncollectible receivables	4,723	4,710
Accrued fees	473	507
Other assets	7,410	9,376
	42,992	**45,071**
Less: allowance for impairment losses	(9,565)	(9,517)
	33,427	**35,554**

The movements in allowance for impairment losses are summarized as follows:

	2013	2012
Balance as at 1 January	**9,517**	**10,357**
Net charge / (credit) to profit or loss (Note 13)	1,014	(142)
Release due to writte-offs	(970)	(677)
Effects of foreign exchange	4	(21)
Balance as at 31 December	**9,565**	**9,517**

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

22. Property and equipment

	Land and buildings	Motor vehicles and equipment	Computers	Assets in progress	Total
COST					
Balance as at 31 December 2011	**54,252**	**32,551**	**48,188**	**4,114**	**139,105**
Additions	-	-	-	5,667	5,667
Write-offs	-	(246)	(373)	-	(619)
Disposals	(2,725)	(366)	-	-	(3,091)
Transfers (from) / to	315	2,197	4,640	(7,152)	-
Balance as at 31 December 2012	**51,842**	**34,136**	**52,455**	**2,629**	**141,062**
Additions	-	-	-	2,282	2,282
Write-offs	-	(63)	(82)	-	(145)
Disposals	-	(637)	(735)	-	(1,372)
Transfers (from) / to	198	1,611	1,776	(3,585)	-
Other movements	-	(1,061)	(39)	-	(1,100)
Balance as at 31 December 2013	**52,040**	**33,986**	**53,375**	**1,326**	**140,727**
ACCUMULATED DEPRECIATION					
Balance as at 31 December 2011	**14,505**	**20,964**	**40,115**	**-**	**75,584**
Depreciation charge for the year	1,013	2,654	4,175	-	7,842
Write offs	-	(224)	(372)	-	(596)
Disposals	(898)	(344)	-	-	(1,242)
Impairment loss (Note 13)	607	-	-	-	607
Balance as at 31 December 2012	**15,227**	**23,050**	**43,918**	**-**	**82,195**
Depreciation charge for the year	1,003	2,746	3,813	-	7,562
Write offs	-	(45)	(82)	-	(127)
Disposals	-	(455)	(735)	-	(1,190)
Impairment loss (Note 13)	82	-	-	-	82
Other movements	-	(1,057)	(9)	-	(1,066)
Balance as at 31 December 2013	**16,312**	**24,239**	**46,905**	**-**	**87,456**
NET BOOK VALUE				**-**	
31 December 2013	**35,728**	**9,747**	**6,470**	**1,326**	**53,271**
31 December 2012	**36,615**	**11,086**	**8,537**	**2,629**	**58,867**

Assets in progress as at 31 December 2012 and 2013 represent equipment and motor vehicles that were not activated.

The carrying value of non-depreciating land within land and buildings amounted to KM 0.4 million on 31 December 2013 (2012: KM 0.4 million).

During 2012 and 2013, the Bank did not capitalise any borrowing costs related to the acquisition of property and equipment.

During 2012 and 2013, property and equipment were not pledged as collateral for the Bank's borrowings.

23. Intangible assets

	Software	Leasehold improvements	Other intangible assets	Assets in progress	Total
COST					
Balance as at 31 December 2011	**33,843**	**26,151**	**6,177**	**4,394**	**70,565**
Additions	-	-	-	5,765	5,765
Transfers (from) / to	1,855	2,241	751	(4,847)	-
Balance as at 31 December 2012	**35,698**	**28,392**	**6,928**	**5,312**	**76,330**
Additions	-	-	-	2,749	2,749
Write-offs	-	(457)	-	-	(457)
Transfers (from) / to	1,938	112	196	(2,246)	-
Balance as at 31 December 2013	**37,636**	**28,047**	**7,124**	**5,815**	**78,622**
ACCUMULATED DEPRECIATION					
Balance as at 31 December 2011	**26,844**	**22,071**	**3,072**	**-**	**51,987**
Depreciation charge for the year	3,262	1,770	1,205	-	6,237
Balance as at 31 December 2012	**30,106**	**23,841**	**4,277**	**-**	**58,224**
Depreciation charge for the year	3,442	1,613	1,268	-	6,323
Write-offs	-	(188)	-	-	(188)
Balance as at 31 December 2013	**33,548**	**25,266**	**5,545**	**-**	**64,359**
NET BOOK VALUE					
31 December 2013	**4,088**	**2,781**	**1,579**	**5,815**	**14,263**
31 December 2012	**5,592**	**4,551**	**2,651**	**5,312**	**18,106**

Assets in progress as at 31 December 2012 and 2013 represent software and leasehold improvements that were not activated.

During 2012 and 2013, the Bank did not capitalise any borrowing costs related to the acquisition of intangible assets.

During 2012 and 2013, intangible assets were not pledged as collateral for the Bank's borrowings.

24. Current accounts and deposits from banks

	31 December 2013	31 December 2012
Demand deposits		
- in foreign currency	3,520	6,122
- in KM	1,993	4,813
Term deposits		
- in foreign currency	138,875	138,885
- in KM	-	2,925
	144,388	**152,745**

Current accounts and deposits from banks include KM 140,219 thousand due to related parties (2012: KM 143,772 thousand).

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

25. Current accounts and deposits from customers

	31 December 2013	31 December 2012
Retail		
Current and savings accounts and term deposits - foreign currency	1,089,132	981,489
Current and savings accounts and term deposits - KM	650,781	581,043
	1,739,913	**1,562,532**
Corporate (including state and public sector)		
Demand deposits		
- in KM	601,182	688,717
- in foreign currency	200,141	146,693
Term deposits		-
- in KM	111,321	137,473
- in foreign currency	71,712	118,519
	984,356	**1,091,402**
	2,724,269	**2,653,934**

Retail deposits in KM include KM 1,128 thousand (2012: KM 1,258 thousand) and corporate deposits in KM include KM 75,806 thousand (2012: KM 53,556 thousand) which have a EUR currency clause, with payments in KM equivalent translated at the rate applicable at the date of payment.

Current accounts and deposits from customers include KM 44,109 thousand from related parties (2012: KM 13,130 thousand).

26. Borrowings

	31 December 2013	31 December 2012
Foreign banks	171,811	203,878
Domestic banks	8,021	10,464
	179,832	**214,342**

Interest-bearing borrowings include KM 117,367 thousand (2012: KM 117,382 thousand) of borrowings from related parties.

27. Subordinated debt

	31 December 2013	31 December 2012
Subordinated debt	19,702	19,710
	19,702	**19,710**

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

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

28. Issued securities

During 2008, the Bank issued 100,000 bonds, at par value of KM 1 thousand per bond. These bonds were fully subscribed by Zagrebačka banka d.d. Zagreb, Croatia and matured in 2013. Bonds were bearing an interest rate of 6M EURIBOR + 1%.

29. Other liabilities

	31 December 2013	31 December 2012
Liabilities for items in the course of settlement	38,348	35,317
Accrued expenses	12,700	13,090
Credit card payables	7,564	7,755
Deferred income	1,586	1,493
Other liabilities	7,663	7,435
	67,861	**65,090**

30. Provisions for liabilities and charges

	Provisions for off-balance-sheet items	Provisions for legal proceedings	Long-term provisions for employees	Total
Balance at 1 January 2012	**6,487**	**8,157**	**1,676**	**16,320**
Net charge / (release) in profit or loss	698	(2,713)	235	(1,780)
Release due to usage of provisions	-	(1,304)	(138)	(1,442)
Foreign currency differences	(1)	-	-	(1)
Balance as at 31 December 2012	**7,184**	**4,140**	**1,773**	**13,097**
Net charge in profit or loss	826	23	62	911
Release due to usage of provisions	-	(948)	(286)	(1,234)
Transfer from other liabilities	-	-	81	81
Foreign currency differences	(35)	-	-	(35)
Balance as at 31 December 2013	**7,975**	**3,215**	**1,630**	**12,820**

Except for long-term provisions for employees, which are presented within personnel costs in Note 12, provisions for liabilities and charges are presented within impairment losses and provisions in Note 13.

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

31. Issued share capital

	Class A Ordinary shares	Class D Preference shares	Total
Number of shares	119,011	184	119,195
Par value	1,000	1,000	1,000
Total	**119,011**	**184**	**119,195**

32. Basic earnings per share

Basic eearnings per share is calculated by dividing the net profit attributable to ordinary shareholders by weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares. For the purpose of calculating basic earnings per share, preferred shares are considered as ordinary shares as they do not bear preferential dividend right.

	2013	2012
Net profit for the period attributable to ordinary shareholders	55,571	53,450
Weighted average number of ordinary shares during the period	118,935	118,935
Basic earnings per share (KM)	**467.24**	**449.41**

Diluted earnings per share are not presented, as the Bank has not issued dilutive equity instruments.

33. Commitments and contingent liabilities

During its operations, the Bank has commitments and contigent liabilities recoreded in off-balance, which are related to guarantees, credentials and unused part of loan facilities.

	31 December 2013	31 December 2012
Unused loan facilities	436,947	413,940
Payment and custom guarantees	149,247	153,596
Performance bonds	101,619	90,575
Letter of credit	11,088	21,099
	698,901	**679,210**

34. Funds managed on behalf of third parties and custody services

	31 December 2013	31 December 2012
Assets under custody	393,612	459,344
Loans managed on behalf of third parties	41,383	43,593
	434,995	**502,937**

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

35. Related party transactions

The Bank is a member of the UniCredit Group ("UCI Group"). The key shareholders of the Bank are Zagrebačka banka d.d. with a holding of 65.59% (2012: 65.59%) and UniCredit Bank Austria AG with 24.4% (2012: 24.4%). The Bank considers that it has an immediate related party relationship with its key shareholders and their subsidiaries; its associate (up until disposal); Supervisory Board members, Management Board members and other executive management (together "key management personnel"); close family members of key management personnel; and entities controlled, or significantly influenced by key management personnel and their close family members

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

An overview of related party transactions in 2012 and 2013 is presented below:

	2013		2012	
	Income	**Expenses**	**Income**	**Expenses**
UniCredit Bank Austria AG Vienna, Austria	561	3,756	282	4,553
UniCredit Bank a.d. Banja Luka	354	29	658	36
Zagrebačka banka d.d. Zagreb, Croatia	265	1,750	335	2,714
UniCredit S.p.A Milano, Italy	12	-	70	-
UniCredit Bank Slovenija d.d. Ljubljana, Slovenia	11	-	15	-
UniCredit Bank Srbija a.d. Belgrade, Serbia	2	-	1	-
UniCredit Global Information Services	-	4,066	-	4,013
UniCredit Bank AG Munich, Germany	-	1,378	1	734
Bank Polska Kasa Opieki S.A. Warsaw, Poland	-	568	-	712
ZANE BH d.o.o. Sarajevo	-	87	-	29
BACA Nekretnine d.o.o. Sarajevo	-	66	-	99
UniCredit Broker d.o.o. Sarajevo	-	40	-	28
Interkonzum d.o.o. Sarajevo	-	18	-	13
UniCredit Leasing d.o.o. Sarajevo	-	7	4	6
	1,205	**11,765**	**1,366**	**12,937**
Management Board and other key management personnel, as well as the parties related to Management Board and other key management personnel	116	5,482	102	5,164
	1,321	**17,247**	**1,468**	**18,101**

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

35. Related party transactions (CONTINUED)

There were no transactions with the members of the Supervisory Board during 2012 and 2013.

Income from UniCredit Group members in 2013 includes interest income in the amount of KM 577 thousand (2016: KM 766 thousand) and fee and commission income in the amount of KM 347 thousand (2012: KM 378 thousand). Income in 2013 also includes other income in the amount of KM 281 thousand (2012: KM 222 thousand).

Expenses towards UniCredit Group members in 2013 include interest expense in the amount of KM 5,721 thousand (2012: KM 7,960 thousand), fees in the amount of KM 565 thousand (2012: KM 480 thousand), other administrative expenses in the amount of KM 4,433 thousand (2012: KM 4,203 thousand) and other expenses in the amount of KM 1,046 thousand (2012: KM 294 thousand).

An overview of balances at 31 December 2012 and 2013 is presented below:

	31 December 2013		31 December 2012	
	Exposure*	**Liabilities**	**Exposure***	**Liabilities**
UniCredit Bank Austria AG Vienna, Austria	80,554	236,890	84,418	237,386
UniCredit Bank a.d. Banja Luka	23,170	3	37,983	2,927
UniCredit S.p.A Milano, Italy	7,344	369	8,866	222
Zagrebačka banka d.d. Zagreb, Croatia	6,703	1,554	8,775	101,539
UniCredit Bank AG Munich, Germany	1,129	19,596	863	19,801
UniCredit Global Information Services	85	-	1,380	-
Bank Polska Kasa Opieki S.A. Warsaw, Poland	2	19,702	5	19,710
UniCredit Leasing d.o.o. Sarajevo	-	24,532	-	4,088
Interkonzum d.o.o. Sarajevo	-	12,184	-	1,125
BACA Nekretnine d.o.o. Sarajevo	-	3,963	-	5,001
UniCredit Broker d.o.o. Sarajevo	-	2,060	-	1,573
ZANE BH d.o.o. Sarajevo	-	1,370	-	1,347
UniCredit Bank Slovenija d.d. Ljubljana, Slovenia	-	81	-	235
	118,987	**322,304**	**142,290**	**394,954**
Management Board and other key management personnel, as well as the parties related to Management Board and other key management personnel	1,877	2,410	1,853	3,717
	120,864	**324,714**	**144,143**	**398,671**

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

Regarding exposure toward the related parties, the Bank did not have any impairment losses in 2013 and 2012, and the balance of impairment allowance at 31 December 2013 and 31 December 2012 was nil.

Further, the Bank did not receive any guarantees from the related parties at 31 December 2013 and 31 December 2012, but has issued guarantees in an amount of KM 6,423 thousand to UniCredit Bank Austria AG (2012: KM 5,971 thousand)).

35. Related party transactions (CONTINUED)

Remuneration paid to Management Board and other key management personnel:

	2013	2012
Gross salaries	2,584	2,809
Bonuses	1,051	1,307
Other benefits	1,224	294
	4,859	**4,410**

36. Risk management

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

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

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

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

36.1 Credit risk

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

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

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

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

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

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

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

36. Risk management (CONTINUED)

36.1 Credit risk (CONTINUED)

36.1.1 Maximum exposure to credit risk

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

The Bank continually applies prudent methods and tools in the credit risk assessment process.The maximum exposure to credit risk relating to items in the statement of financial position and commitments (off-balance-sheets items) is as follows:

	31 December 2013	31 December 2012
Statement of financial position		
Cash and cash equivalents (Note 15)	296,673	357,423
Obligatory reserve at CBBH (Note 16)	243,005	236,965
Loans to and receivables from banks (Note 17)	507,470	510,085
Debt securities within financial assets available-for-sale (Note 18)	142,717	133,199
Financial assets at fair value through profit or loss (Note 19)	56	5
Loans and receivables from customers (Note 20)	2,311,743	2,281,857
Other assets exposed to credit risk (Note 21)	32,515	34,153
Total credit risk exposure relating to assets	**3,534,179**	**3,553,687**
Off-balance-sheet items (Note 33)		
Unused loan facilities	436,947	413,940
Guarantees	250,866	244,171
Letters of credit	11,088	21,099
Total off-balance sheet credit risk exposure	**698,901**	**679,210**
	4,233,080	**4,232,897**

The above table represents the maximum credit risk exposure of the Bank as at 31 December 2013 and 2012, without taking into account any collateral held or other credit enhancements attached. For items in the statement of financial position, the exposures set out above are based on net carrying amounts as reported in the statement of financial position. For commitments the maximum credit risk exposure equals the total undrawn amounts.

As shown above 54,6% of the total maximum exposure to credit risk is derived from loans and receivables from customers (2012: 53,9%), while 12% refers to loans to and receivables from banks (2012: 12.0%).

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

36. Risk management (CONTINUED)

36.1 Credit risk (CONTINUED)

36.1.2 Concentration of assets and liabilities toward state sector

The table below shows the concentration of placements and liabilities to the State of Bosnia and Herzegovina and the entities: the Federation of B&H and the Republic of Srpska:

	31 December 2013	31 December 2012
Current account with CBBH (Note 15)	228,679	278,950
Obligatory reserve at CBBH (Note 16)	243,005	236,965
Bonds of the Government of the Federation of B&H (Note 18)	88,397	85,474
Treasury bills of the Government of the Federation of B&H (Note 18)	13,960	22,025
Treasury bills of the Government of the Republic of Srpska (Note 18)	7,923	10,146
Income tax prepayment	-	68
Current tax liability	(282)	-
Deferred tax liability (Note 14)	(1,402)	(1,428)
	580,280	**632,200**

The Bank had no off-balance sheet sovereign risk exposure at 31 December 2013 and 2012.

In addition, liabilities to state institutions are as follows:

	31 December 2013	31 December 2012
Short-term deposits	(35,597)	(32,366)
Off-balance-sheet exposure	5	5

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

Furthermore, at the reporting period date KM 45,487 thousand (2012: KM 52,064 thousand) of the Bank's balance-sheet exposure to corporate customers is secured by the State's guarantees.

36.1.3 Real estate market trends

During 2013, as well as in forecasts for 2014, certain positive improvements and plans for initiation of activities over the introduction of real estate market regulations in Bosnia and Herzegovina have been noted. The beginning of a real estate registration project and reconciliation of data in land register has been announced. Furthermore, a need for real estate market regulations in Bosnia and Herzegovina, licensing and education of market participants, as well as introduction of central real estate database, are more and more emphasised.

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

36. Risk management (CONTINUED)

36.1 Credit risk (CONTINUED)

36.1.3 Real estate market trends (CONTINUED)

There are no enough continuous and accurate statistical data in Bosnia and Herzegovina that can provide precise information about the trends in real estate prices. Upon the continuous decline in real estate value in Bosnia and Herzegovina during the last several years, there are indications that decline has been stopped in 2013. On the other hand, demand for properties is still not increasing, mainly as a result of the economic trends and uncertainties.

In order to monitor the movements in the market value of residential properties, as Basel II requires mandatory assessment every three years as a minimum, the Bank has developed an internal statistical model for monitoring of prices of properties provided as collaterals for loans.

36.1.4 Rescheduled and restructured receivables

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

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

Compared to the end of 2012, the restructured corporate portfolio has fallen in volume by 4% in 2013, amounting to KM 109,096 thousand (2012: KM 113,194 thousand). The rate of provisioning of this portfolio as of 31 December 2013 was 20% (2011: 16%).

On the other hand, the restructured retail portfolio recorded increase of 88%, amounting to KM 7,373 thousand (2012: KM 3,903 thousand), with provisions amounting to 14.2% of the portfolio (2012: 12.5%). Two important factors influence the higher level of restructuring for individuals: in 2013, retail restructuring process is intensified and at the same time Bank started client approach where as total client's exposure is treated as restructured.

36. Risk management (CONTINUED)

36.1 Credit risk (CONTINUED)

36.1.5 Analysis by overdue receivables (non-performing loan portfolio) and collateral

Impairment allowance coverage of the non-performing loan portfolio is 76% (2012: 74.7%).

	31 December 2013	31 December 2012
Retail loans		
Loans that are neither past due nor impaired	1,220,947	1,188,764
Past due loans that are not impaired	67,374	65,529
Impaired loans	98,050	93,805
Gross	**1,386,371**	**1,348,098**
Less: allowance for impairment losses	(92,502)	(86,017)
Net	**1,293,869**	**1,262,081**
Corporate , including state and public sector		
Loans that are neither past due nor impaired	925,674	910,985
Past due loans that are not impaired	48,013	59,030
Impaired loans	234,366	230,643
Gross	**1,208,053**	**1,200,658**
Less: impairment allowance	(190,179)	(180,882)
Net	**1,017,874**	**1,019,776**

The total impairment allowance for loans to customers is KM 282,681 thousand (2012: KM 266,899 thousand) of which KM 252,507 thousand (2012: KM 242,276 thousand) represents specific impairment allowances and the remaining amount of KM 30,174 thousand (2012: KM 24,623 thousand) represents IBNR calculated on a portfolio basis.

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

36. Risk management (CONTINUED)

36.1 Credit risk (CONTINUED)

36.1.5 Analysis by overdue receivables (non-performing loan portfolio) and collateral (CONTINUED)

a) Loans that are neither past due nor impaired

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

	Retail					Corporate, including state and public sector			
	Cash and consumer loans	Credit cards and overdrafts	Housing loans	Sole traders	Total	Large	Medium	Small	Total
31 December 2013									
Standard monitoring	818,661	153,194	248,896	196	1,220,947	434,491	300,141	94,478	829,110
Special monitoring	-	-	-	-	-	87,267	5,695	3,602	95,564
	818,661	**153,194**	**248,896**	**196**	**1,220,947**	**521,758**	**305,836**	**98,080**	**925,674**
31 December 2012									
Standard monitoring	769,351	156,748	262,281	384	1,188,764	454,754	178,834	194,438	828,026
Special monitoring	-	-	-	-	-	48,681	7,432	26,846	82,959
	769,351	156,748	262,281	384	1,188,764	503,435	186,266	221,284	910,985

36. Risk management (CONTINUED)

36.1 Credit risk (CONTINUED)

36.1.5 Analysis by overdue receivables (non-performing loan portfolio) and collateral (CONTINUED)

b) Past due loans that are not impaired

	Retail					Corporate, including state and public sector			
	Cash and consumer loans	Credit cards and overdrafts	Housing loans	Sole traders	Total	Large	Medium	Small	Total
31 December 2013									
Past due up to 30 days	32,863	14,140	11,872	-	58,875	26,004	17,071	2,798	45,873
Past due 31 to 60 days	4,461	1,444	1,484	-	7,389	-	817	1,181	1,998
Past due 61 to 90 days	574	316	220	-	1,110	-	-	142	142
	37,898	**15,900**	**13,576**	**-**	**67,374**	**26,004**	**17,888**	**4,121**	**48,013**
Estimated value of collateral	**1,145**	**-**	**3,786**	**-**	**4,931**	**7,812**	**1,392**	**687**	**9,891**
31 December 2012									
Past due up to 30 days	29,477	13,316	13,898	-	56,691	33,519	7,357	5,244	46,120
Past due 31 to 60 days	2,424	2,686	1,949	1	7,060	1,581	3,675	7,216	12,472
Past due 61 to 90 days	619	369	790	-	1,778	-	-	438	438
	32,520	**16,371**	**16,637**	**1**	**65,529**	**35,100**	**11,032**	**12,898**	**59,030**
Estimated value of collateral	**1,654**	**-**	**10,025**	**1**	**11,680**	**13,974**	**4,966**	**6,650**	**25,590**

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

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

36. Risk management (CONTINUED)

36.1 Credit risk (CONTINUED)

36.1.5 Analysis by overdue receivables (non-performing loan portfolio) and collateral (CONTINUED)

c) Non-performing loans (impaired loans)

The carrying value of impaired loans amounts to KM 79,909 thousand (2012: KM 82,173 thousand). The breakdown of the net amount of the individually impaired loans to customers, along with the fair value of related collateral held by the Bank as security, is as follows:

	Retail					Corporate, including state and public sector			
	Cash and consumer loans	Credit cards and overdrafts	Housing loans	Sole traders	Total	Large	Medium	Small	Total
31 December 2013									
Non-performing loans	8,400	931	9,491	6	18,828	37,189	18,885	5,007	61,081
Estimated value of collateral	825	-	4,083	-	4,908	26,488	6,085	1,409	33,982
31 December 2012									
Non-performing loans	6,678	1,353	10,677	1	18,709	40,893	7,600	14,971	63,464
Estimated value of collateral	**1,028**	**-**	**7,715**	**-**	**8,743**	**36,009**	**4,977**	**10,180**	**51,166**

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

36. Risk management (CONTINUED)

36.2 Liquidity risk

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

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

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

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

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

36.2.1 Structural liquidity

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

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

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

3) For the purpose of this disclosure, non-performing loans are loans with assigned internal ratings of 8, 9 or 10 for corporate.

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

36. Risk management (CONTINUED)

36.2 Liquidity risk (CONTINUED)

36.2.1 Structural liquidity (CONTINUED)

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

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

36. Risk management (CONTINUED)

36.2 Liquidity risk (CONTINUED)

36.2.1 Structural liquidity (CONTINUED)

31 December 2013 (in KM million)	TOTAL	Overnight	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	3 to 10 years	Over 10 years
Gap	**(1)**	**261**	**342**	**91**	**55**	**24**	**(259)**	**(515)**
Assets	**4,148**	**701**	**774**	**246**	**566**	**601**	**952**	**307**
Statement of financial position	**3,981**	**701**	**613**	**241**	**566**	**601**	**952**	**307**
Loans to and receivables from customers	*2,134*	*4*	*105*	*238*	*339*	*562*	*863*	*23*
Retail	1,118	2	32	54	177	333	503	17
Corporate	1,016	2	73	184	162	229	360	6
Mortgage loans to customers	*186*	-	*1*	*3*	*15*	*39*	*89*	*39*
Retail	186	-	1	3	15	39	89	39
Securities	*142*	*27*	*3*	-	*112*	-	-	-
Financial assets available-for-sale	142	27	3	-	112	-	-	-
Loans to and receivables from banks	*1,041*	*537*	*504*	-	-	-	-	-
Current accounts	65	65	-	-	-	-	-	-
Deposits	504	-	504	-	-	-	-	-
Obligatory reserve at CBBH	472	472	-	-	-	-	-	-
Other assets	*478*	*133*	-	-	*100*	-	-	*245*
Cash	133	133	-	-	-	-	-	-
Impaired loans	177	-	-	-	-	-	-	177
Other assets	168	-	-	-	100	-	-	68
Off-balance sheet	**167**	**-**	**161**	**5**	**-**	**-**	**-**	**-**
Derivatives	*167*	-	*161*	*5*	-	-	-	-
Unused credit facilities	-	-	-	-	-	-	-	-
Liabilities	**4,149**	**440**	**432**	**155**	**511**	**577**	**1,211**	**822**
Statement of financial position	**3,982**	**438**	**271**	**150**	**504**	**577**	**1,220**	**822**
Demand deposits	*1,801*	*304*	*83*	*73*	*160*	*193*	*988*	-
Retail	995	166	25	25	61	75	643	-
Corporate	806	138	58	48	99	118	345	-
Time deposits	*913*	*129*	*81*	*74*	*181*	*226*	*222*	-
Retail	730	128	64	60	118	155	205	-
Corporate	183	1	17	14	63	71	17	-
Liabilities to banks	*342*	*5*	*107*	*3*	*59*	*158*	*10*	-
Borrowings	61	-	9	3	18	21	10	-
Current accounts and deposits	281	5	98	-	41	137	-	-
Other liabilities and equity	*926*	-	-	-	*104*	-	-	*822*
Equity	523	-	-	-	-	-	-	523
Other liabilities	104	-	-	-	104	-	-	-
Provisions	299	-	-	-	-	-	-	299
Issued debt securities	-	-	-	-	-	-	-	-
Off-balance sheet	**167**	**2**	**161**	**5**	**7**	**-**	**(9)**	**-**
Derivatives	*167*	-	*161*	*5*	-	-	-	-
Contingent liabilities	-	*2*	-	-	*7*	-	*(9)*	-

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

36. Risk management (CONTINUED)

36.2 Liquidity risk (CONTINUED)

36.2.1 Structural liquidity (CONTINUED)

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

36. Risk management (CONTINUED)

36.2 Liquidity risk (CONTINUED)

36.2.2 Future cash flows from financial instruments

The following table details the Bank's remaining contractual maturity for its non-derivative financial assets, The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Bank anticipates that the cash flow will occur in a different period.

Maturity for non-derivative financial assets

	Weighted average effective interest rate	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2013							
Non-interest bearing	-	126,700	-	-	-	-	126,700
Variable interest rate instruments	8.03%	751,974	130,091	404,768	1,048,146	480,505	2,815,484
Fixed interest rate instruments	5.99%	572,367	172,774	120,018	225,767	19,172	1,110,098
		1,451,041	**302,865**	**524,786**	**1,273,913**	**499,677**	**4,052,282**
31 December 2012							
Non-interest bearing	-	126,811	-	-	-	-	126,811
Variable interest rate instruments	8.37%	752,632	130,205	405,123	1,049,064	480,926	2,817,950
Fixed interest rate instruments	6.33%	572,869	172,926	120,123	225,965	19,189	1,111,072
		1,452,312	303,131	525,246	1,275,029	500,115	4,055,833

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

Maturity for non-derivative financial liabilities

	Weighted average effective interest rate	Less than 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2013							
Non-interest bearing	-	6,360	677	2,248	17,352	26	26,663
Variable interest rate instruments	1.33%	1,671,795	61,376	277,416	439,617	3,212	2,453,416
Fixed interest rate instruments	2.65%	42,372	148,126	207,566	230,547	12,556	641,167
		1,720,527	**210,179**	**487,230**	**687,516**	**15,794**	**3,121,246**
31 December 2012							
Non-interest bearing		7,796	622	2,063	15,923	24	26,428
Variable interest rate instruments	1.67%	1,658,716	136,347	352,766	403,734	9,439	2,561,002
Fixed interest rate instruments	2.99%	42,038	146,958	205,930	228,729	12,457	636,112
		1,708,550	**283,927**	**560,759**	**648,386**	**21,920**	**3,223,542**

The Bank expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

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

36. Risk management (CONTINUED)

36.3 Market risk

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

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

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

Overall exposure to market risks is monitored within Risk Management using various methodologies and techniques of risk measurement. The existing limits of market risks are reviewed at least once a year. Alterations to the limits of the Group are coordinated by Zagrebačka banka.

In addition to development and implementation of techniques for measuring market risk, the Bank continually works on improving its business processes and quality of data. In 2013 market risk measurement techniques were improved by the introduction of parameters for controlling the influence of changes in interest rate spreads for fixed income securities – CPV (credit spread basis point).

Market risk measurement techniques:

36.3.1 Value at Risk

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

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

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

VaR according to risk types in 2013 and 2012 is as follows:

	Minimum 2013	Average 2013	Maximum 2013	End of 2013
Interest risk	(2)	(29)	(107)	(35)
Currency risk	-	(2)	(5)	-
Securities price risk	(107)	(187)	(250)	(121)
Total VaR	**(108)**	**(189)**	**(264)**	**(120)**

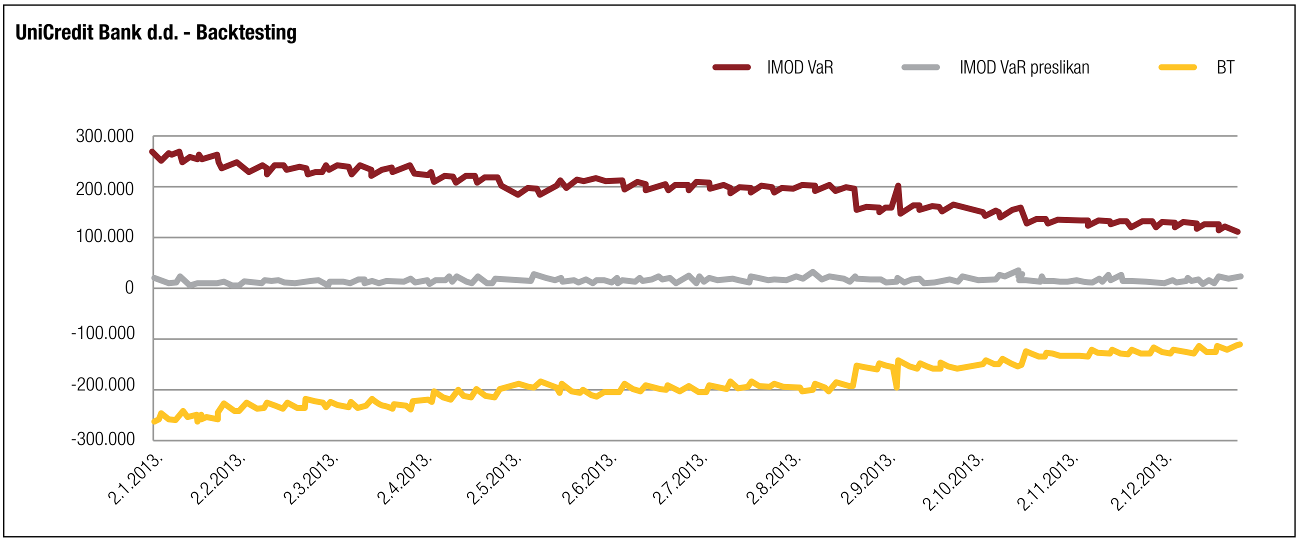
	Minimum 2012	Average 2012	Maximum 2012	End of 2012
Interest risk	(68)	(193)	(264)	(251)
Currency risk	-	(2)	(5)	(1)
Total VaR	**(68)**	**(198)**	**(281)**	**(263)**

36. Risk management (CONTINUED)

36.3 Market risk (CONTINUED)

36.3.1 Value at Risk (CONTINUED)

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



There were no backtesting violations in 2013.

36.3.2 Stress-testing

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

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

Testing is performed monthly and test results are included into regular ALCO's reports.

36.4 Foreign currency risk

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

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

36. Risk management (CONTINUED)

36.4 Foreign currency risk (CONTINUED)

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

Foreign currency risk management is performed in accordance with UniCredit Group standards by setting principles and limits for foreign currency exposures and by monitoring exposures against limits of open foreign currency positions stated in absolute values. The Bank directs bussines activities in order to minimise the gap between assets and liabilities denominated in foreign currency by aligning its positions with set limits.

The carrying amounts of the Bank's monetary assets and monetary liabilities per currency at the reporting period date were as follows.

	KM	EUR	USD	Other currencies	Total
As of 31 December 2013					
Assets					
Cash and cash equivalents	323,509	46,822	8,881	44,053	423,265
Obligatory reserve at CBBH	243,005	-	-	-	243,005
Loans to and receivables from banks	23,001	346,259	130,337	7,873	507,470
Financial assets available-for-sale	102,573	37,423	-	2,937	142,933
Financial assets at fair value through profit or loss	-	56	-	-	56
Loans and receivables from customers	958,352	1,353,391	-	-	2,311,743
Other receivables	20,514	-	-		20,514
	1,670,954	**1,783,951**	**139,218**	**54,863**	**3,648,986**
Liabilities					
Current accounts and deposits from banks	1,993	142,395	-	-	144,388
Current accounts and deposits from customers	1,286,550	1,249,803	135,009	52,907	2,724,269
Financial liabilities at fair value through profit or loss	-	49	-	-	49
Borrowings	1,745	178,087	-	-	179,832
Subordinated debt	-	19,702	-	-	19,702
Issued debt securities	-	-	-	-	-
Other liabilities	58,612	-	-	-	58,612
	1,348,900	**1,590,036**	**135,009**	**52,907**	**3,126,852**
Net position	**322,054**	**193,915**	**4,209**	**1,956**	**522,134**

36. Risk management (CONTINUED)

36.4 Foreign currency risk (CONTINUED)

	KM	EUR	USD	Other currencies	Total
As of 31 December 2012					
Assets					
Cash and cash equivalents	360,990	66,181	5,966	36,135	469,272
Obligatory reserve at CBBH	236,965	-	-	-	236,965
Loans to and receivables from banks	37,943	329,335	132,494	10,313	510,085
Financial assets available-for-sale	107,716	22,347	-	3,352	133,415
Financial assets at fair value through profit or loss	-	5	-	-	5
Loans and receivables from customers	931,632	1,350,196	-	29	2,281,857
Other receivables	20,654	-	-		20,654
	1,695,900	**1,768,064**	**138,460**	**49,829**	**3,652,253**
Liabilities					
Current accounts and deposits from banks	7,737	145,008	-	-	152,745
Current accounts and deposits from customers	1,352,420	1,116,508	138,047	46,959	2,653,934
Financial liabilities at fair value through profit or loss	-	4	-	-	4
Borrowings	1,747	212,595	-	-	214,342
Subordinated debt	-	19,710	-	-	19,710
Issued debt securities	-	100,351	-	-	100,351
Other liabilities	56,162	-	-	-	56,162
	1,418,066	**1,594,176**	**138,047**	**46,959**	**3,197,248**
Net position	**277,834**	**173,888**	**413**	**2,870**	**455,005**

36.4.1 1 Foreign currency sensitivity analysis

The Bank is mainly exposed to EUR and USD. Since Convertible Mark (KM) is pegged to EUR, the Bank is not exposed to risk of change of EUR exchange rate.

The following table details the Bank's sensitivity to a 10% increase and decrease in KM against USD. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in USD. A positive number below indicates an increase in profit where KM strengthens 10% against USD. For a 10% weakening of KM against USD, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	USD Impact	
	31 December 2013	31 December 2012
Profit / (loss)	421	41

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

36. Risk management (CONTINUED)

36.5 Interest rate risk

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

Interest rate change risk sources are:

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

36.5.1 Interest rate sensitivity analysis

The sensitivity analysis below has been determined through the measurement of risk by calculating the net present value of a change in the value of the portfolio in a scenario where the interest rate changes by 0.01% (1 basis point) with the basis point value (BPV) limit applied as the sensitivity measure according to currencies and time periods. Daily compliance limits are set by UniCredit Group.

Sensitivity analysis:

	Minimum	Average	Maximum	End of the year
2013	37	55	75	54
2012	33	49	73	73

Sensitivity analysis per currency:

	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 10 years	Over 10 years	Total
31 December 2013						
KM	1	3	17	3	(1)	23
EUR	4	1	13	4	-	22
USD	-	1	2	6	-	9
	5	**5**	**32**	**13**	**(1)**	**54**
31 December 2012						
KM	7	3	18	3	(1)	30
EUR	2	2	19	8	-	31
USD	-	1	1	10	-	12
	9	**6**	**38**	**21**	**(1)**	**73**

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

36. Risk management (CONTINUED)

36.5 Interest rate risk (CONTINUED)

36.5.2 Effective interest rates

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

	2013	2012
	%	%
Cash and cash equivalents	0.04	0.03
Obligatory reserve at CBBH	0.03	0.03
Financial assets available-for-sale	3.74	3.21
Loans to and receivables from banks	0.13	0.26
Loans and receivables from customers	6.84	7.18
Current accounts and deposits from banks	1.08	1.55
Current accounts and deposits from customers	1.51	1.72
Interest-bearing borrowings	2.63	3.24
Subordinated debt	2.90	3.64
Issued debt securities	1.53	2.33

36.6 Operational risk

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

The Bank established an appropriate system for recognising, measuring, grading and monitoring of operational risks, aiming at its optimum management and reduction by using the positive experience of the Group regarding operational risks, standards and principles defined by the local regulator and the Basel Committee as well as its own findings based on its own experience in this area.

Operational risk management is inbuilt throughout the entire organisational structure of the Bank, through regular strategic management and supervision. In this way the Bank has a special focus on continuous analysis and development of solutions to avoid, control and transfer operational risk to third parties.

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

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

36. Risk management (CONTINUED)

36.7 Reputational risk

Reputational risk represent current or future risk that may affect the Bank's revenues or equity as a result of unfavorable seeing of the Bank's image by the customers, other counterparties, shareholders/investors, regulator or employees (stakeholders).

All the Bank's activities are exposed to reputational risk. According to the standards of UniCredit Group, in its daily operating activities, the Bank is systematically approaching to the strategy, monitoring and evaluation for each individual case of reputational risk.

The Bank recognizes the exceptional importance of preventing and mitigating actions in reputational risk management. Responsibility for reputational risk management is distributed through the Bank's overall hierarchical structure and continuous rising of awareness on importance of reputational risk represents one of the underlying basics of the risk management.

36.8 Capital management

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

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

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

During 2013 the Bank has been in compliance with all regulatory capital requirements and according to the local regulations had a capital adequacy ratio of 20,0% as at 31 December 2013.

The recognition of regulatory reserves for credit losses and the calculation of similar differences between IFRS and local credit risk provisions and their inclusion in local capital adequacy assessment are explained in Note 4.

Notwithstanding increased deductions in respect of regulatory reserves, the Bank had a capital adequacy ratio of 20.0% at 31 December 2013. The capital adequacy ratio according to the Basel II methodology was also significantly above required levels in 2013.

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

- Tier 1 capital: ordinary shares (reduced by treasury shares and intangible assets), share premium, retained earnings and other reserves arising from distribution of retained earnings, excluding regulatory reserves for credit losses, which are non-distributable
- Tier 2 capital: preference shares (fully paid in cash), profit for the year audited and certified by the Bank's external auditor; subordinated debt; and an allowance for general provisions calculated at prescribed rates set by the regulator (see below).
- The allowance for general provision included as Tier 2 capital does not comprise allowances actually recognised by the Bank in its financial statements. Rather, it represents an amount calculated on eligible assets (performing balance-sheet and off-balance-sheet exposure as defined by FBA) at rates prescribed by FBA, in the amount of KM 58,599 thousand.

36. Risk management (CONTINUED)

36.8 Capital management (CONTINUED)

As explained in Note 4, FBA also requires amounts equivalent to specific provisions calculated in accordance with FBA rules to be excluded or deducted from capital for capital adequacy assessment purposes, to the extent that those specific provisions exceed the total impairment allowances recognised by the Bank in the financial statements. In accordance with the above requirements, the Bank has excluded from capital an amount of KM 42,660 thousand of equity recognised in its financial statements. Out of this amount, KM 20,682 thousand were already recognized as within the equity in the financial statements; the rest of KM 21,978 thousand was presented as deducting item.

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

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

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

	2013	2012
Share capital – Tier 1 capital		
Ordinary shares	119,011	119,011
Treasury shares	(81)	(81)
Share premium	48,317	48,317
Reserves and retained earnings	390,638	281,878
Intangible assets	(14,263)	(18,106)
Total share capital	**543,622**	**431,019**
Additional capital - Tier 2 capital		
Allowance for general provision under FBA rules	58,599	57,192
Preference shares	184	184
Subordinated debt	19,558	19,558
Total additional capital	**78,341**	**76,934**
Deductions from capital		
Increase in regulatory reserve for credit losses calculated in 2012	(21,978)	(17,670)
Total deductions from capital	**(21,978)**	**(17,670)**
Net capital	**599,985**	**490,283**
Risk weighted assets		
Credit-risk-weighted assets	2,758,021	2,741,057
Other weighted assets	239,229	237,155
Total risk weighted assets	**2,997,250**	**2,978,212**
Capital adequacy rate	**20.0%**	**16.5%**

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

36. Risk management (CONTINUED)

36.9 Maturity analysis

The tables below present the assets and liabilities of the Bank at 31 December 2013 and 2012 classified into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date except for debt securities available-for-sale which have been classified in accordance with their secondary liquidity characteristics as maturing within one month and obligatory reserve which has been classified in the maturity period within one month. Equity securities, that are part of assets and liabilities which do not have contractual maturity, are classified in the maturity period of 1 year to 5 years, and all other positions over 5 years.

	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
31 December 2013						
Assets						
Cash and cash equivalents	423,265	-	-	-	-	423,265
Obligatory reserve at CBBH	243,005	-	-	-	-	243,005
Loans to and receivables from banks	504,105	31	3,334	-	-	507,470
Financial assets available-for-sale	142,717	-	-	216	-	142,933
Financial assets at fair value through profit or loss	56	-	-	-	-	56
Loans to and receivables from customers	238,229	272,426	434,102	952,879	414,107	2,311,743
Income tax prepayment	-	-	-	-	-	-
Other assets	33,128	104	195	-	-	33,427
Property, equipment and intangible assets	-	-	-	-	67,534	67,534
Total assets	**1,584,505**	**272,561**	**437,631**	**953,095**	**481,641**	**3,729,433**
Liabilities and equity						
Current accounts and deposits from banks	5,512	97,804	41,072	-	-	144,388
Current accounts and deposits from customers	1,708,514	107,923	430,112	465,962	11,758	2,724,269
Financial liabilities at fair value through P&L	49	-	-	-	-	49
Borrowings and subordinated debt	9,439	3,060	17,732	166,620	2,683	199,534
Other liabilities	62,386	-	2,776	2,699	-	67,861
Issued debt securities	-	-	-	-	-	-
Provisions for liabilities and charges	2,816	1,186	3,463	3,990	1,365	12,820
Current tax liability	282					282
Deferred tax liability	-	-	-	1,402	-	1,402
Equity	-	-	-	-	578,828	578,828
Total liabilities and equity	**1,788,998**	**209,973**	**495,155**	**640,673**	**594,634**	**3,729,433**
Maturity gap	**(204,493)**	**62,588**	**(57,524)**	**312,422**	**(112,993)**	**-**

36. Risk management (CONTINUED)

36.9 Maturity analysis (CONTINUED)

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

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

37. Fair value measurement

This note provides information about how the Company determines fair values of various financial assets and financial liabilities.

37.1 Fair value of Bank's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. In addition, the information is given about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

	Fair values		
31 December 2013	**Level 1**	**Level 2**	**Level 3**
Financial assets available-for-sale (see Note 18)			
Listed equity securities in Bosnia and Herzegovina	214	-	-
Unlisted debt securities in Bosnia and Herzegovina:			
Bonds of the Government of the Federation of B&H	-	88,397	-
Treasury bills of the Government of the Federation of B&H	-	13,960	-
Treasury bills of the Government of the Republic of Srpska	-	7,923	-
Unlisted debt securities in Croatia:			
Treasury bills of the Government of the Republic of Croatia	-	2,937	-
Unlisted debt securities in Austria (banking)	-	29,500	-
Unlisted equity securities in Bosnia and Herzegovina	-	-	2
Foreign currency forward contracts (see Note 19)			
Assets	-	56	-
Liabilities	-	49	-

	Fair values		
31 December 2012	**Level 1**	**Level 2**	**Level 3**
Financial assets available-for-sale (see Note 18)			
Listed equity securities in Bosnia and Herzegovina	214	-	-
Listed equity securities in Germany and Finland	12,202	-	-
Unlisted debt securities in Bosnia and Herzegovina:			
Bonds of the Government of the Federation of B&H	-	85,474	-
Treasury bills of the Government of the Federation of B&H	-	22,025	
Treasury bills of the Government of the Republic of Srpska	-	10,146	
Unlisted debt securities in Croatia:			
Treasury bills of the Government of the Republic of Croatia	-	3,352	-
Unlisted equity securities in Bosnia and Herzegovina	-	-	2
Foreign currency forward contracts (see Note 19)			
Assets	-	5	-
Liabilities	-	4	-

37. Fair value measurement (CONTINUED)

37.1 Fair value of Bank's financial assets and financial liabilities that are measured at fair value on a recurring basis (CONTINUED)

Valuation techniques and key inputs

Financial assets available-for-sale

For the securities presented under Level 1 (listed equity securities in Bosnia and Herzegovina, Germany and Finland) valuation technique is based on quoted bid prices in an active market.

For the securities presented under Level 2 (unlisted debt securities in Bosnia and Herzegovina, Republic of Croatia and Austria) discounted cash flow valuation technique is applied. Instruments that are not quoted in an active market are valued by using the models which include maximum relevant and available inputs and, also, unobservable inputs, but at minimum level. Depending on significance of inputs that are unobservable, debt securities are awarded with Level 2 or Level 3. Valuation is performed based on discounted cash flow, considering the last available rate on owned or similar debt securities as yield rate.

For the securities presented under Level 3 (unlisted equity securities in Bosnia and Herzegovina) discounted cash flow valuation technique is applied. Significant unobservable inputs are long-term revenue growth rates. Relationship of unobservable inputs to fair value is reflected as the higher the revenue growth rate, as the higher the fair value.

Foreign currency forward contracts

Valuation technique applied for forward contracts presented under Level 2 is discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

There were no transfers between Level 1 and Level 2 during 2013 and 2012.

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

37. Fair value measurement (CONTINUED)

37.2 Fair value of the Bank's financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Except as detailed in the following table, the Management consider that the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values.

	31 December 2013		31 December 2012	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Loans and receivables:				
- Loans and receivables from customers	2,311,743	2,462,707	2,281,857	2,283,440
Financial liabilities				
Financial liabilities held at amortised cost:				
- Current accounts and deposits from customers	2,724,269	2,738,952	2,653,934	2,652,080
- Borrowings	179,832	178,941	214,342	234,052

	Fair value hierarchy as at 31 December 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Loans and receivables:				
- Loans and receivables from customers	-	2,324,312	138,395	2,462,707
	-	**2,324,312**	**138,395**	**2,462,707**
Financial liabilities				
Financial liabilities held at amortised cost:				
- Current accounts and deposits from customers	-	2,738,952	-	2,738,952
- Borrowings	-	178,941	-	178,941
	-	**2,917,893**	**-**	**2,917,893**

The fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

Presumptions used for estimate and measurement of fair value of particular financial instruments for 2013 are based on requirements of IFRS 13, by applying the methodology developed on UnICredit Group level.

37. Fair value measurement (CONTINUED)

37.2 Fair value of the Bank's financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required) (CONTINUED)

Calculation of fair value of performing loans to and deposits from customers with fixed and variable interest rates is based on discounted cash flow valuation technique. The components used for determination of discount factors for performing loans to customers included non-risky interest rates, as well as expected and unexpected loss, while the components used for determination of discount factors for deposts from customers are based on non-risky interest rates and liquidity range levels.

Fair value of non-performing loans to customers is equal to their net book value.

For 2012, fair value of loans to customers was calculated by discounting the future cash flows from principal and interest for loans with fixed interest rates only, by using the market interest rates. Estimated fair value of deposits from customers was based on discounting the future cash flows for deposits with fixed interest rates only, by using the market interest rates for deposits with similar maturities. No calculation of fair value of short-term deposits from customers was performed.

37.3 Reconciliation of Level 3 fair value measurements

Fair value of unlisted equity securities in Bosnia and Herzegovina equity cannot be reliably measured. Therefore, they are measured at cost, as they have no material impact on the Bank's financial statements.

38. Approval of the financial statements

The financial statements on the pages 29 to 101 were approved by the Management Board on 14 February 2014 for the submission to the Supervisory Board:

Director
Ivan Vlaho

Chief Financial Officer
Gordan Pehar

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

These financial statements include Balance Sheet (statement of financial position as at 31.12.2013) in the form that is prescribed by the Regulations on the content and form of financial statements for banks and financial institutions (Official Gazette of FBIH 82/10) and Income Statement (statement on the overall result for the period from 01.01. to 31.12.2013)

BALANCE SHEET (Statement of financial position as at 31.12.2013) **in KM**

ITEM	Code for AOP			Current year			Previous year (initial balance)
				Gross	Impairment value	Net (3-4)	
1	2			3	4	5	6
Assets **A. CURRENT ASSETS AND RECEIVABLES (002+008+011+ 014+018+022+030+031+032+033+034)**	0	0	1	3.973.917.959	296.224.977	3.677.692.982	3.684.837.887
1. Cash and cash equivalents,gold and receivables from business (003 to 007)	0	0	2	471.447.588	10.381.050	461.066.538	508.374.973
a) Cash and cash equivalents in domestic currency	0	0	3	323.846.327	4.355.256	319.491.071	356.955.809
b) Other receivables in domestic currency	0	0	4	43.076.020	5.717.559	37.358.461	38.594.942
c) Cash and cash equivalents in foreign currency	0	0	5	103.773.769	0	103.773.769	112.316.336
d) Gold and other precious metals	0	0	6	36.541	0	36.541	36.541
e) Other receivables in foreign currency	0	0	7	714.931	308.235	406.696	471.345
2. Deposits and loans in local and foreign currency (009 + 010)	0	0	8	242.958.958	0	242.958.958	236.962.171
a) Deposits and loans in domestic currency	0	0	9	242.958.958	0	242.958.958	236.962.171
b) Deposits and loans in foreign currency	0	1	0	0	0	0	0
3. Fee and interest receivables,receivables based on sale and other receivables (012 + 013)	0	1	1	7.833.212	6.660.806	1.172.406	1.342.995
a) Fee and interest receivables,receivables based on sale and other receivables in local currency	0	1	2	7.563.866	6.396.293	1.167.573	1.333.615
b) Fee and interest receivables,receivables based on sale and other receivables in foreign currency	0	1	3	269.346	264.513	4.833	9.380
4. Loans and deposits (015 to 017)	0	1	4	2.462.820.525	70.752.245	2.392.068.280	2.369.960.171
a) Loans and deposits in local currency	0	1	5	890.420.040	21.816.030	868.604.010	863.440.661
b) Loans and deposits with hedge local currency currency	0	1	6	1.072.476.832	45.315.933	1.027.160.899	1.016.540.191
c) Loans and deposits in foreign currency	0	1	7	499.923.653	3.620.282	496.303.371	489.979.319
5. Securities (019 to 021)	0	1	8	142.098.785	1.518	142.097.267	132.850.198
a) Securities in local currency	0	1	9	102.096.552	1.518	102.095.034	107.256.831
b) Securities with hedge local currency	0	2	0	7.922.572	0	7.922.572	10.145.287
c) Securities in foreign currency	0	2	1	32.079.661	0	32.079.661	15.448.080
6. Other placements and prepayments (023 to 029)	0	2	2	643.421.537	206.242.955	437.178.582	434.348.228
a) Other placements in local currency	0	2	3	3.044.960	3.034.244	10.716	461
b) Other placements with hedge local currency	0	2	4	0	0	0	0
c) Due placements and current maturities of long-term placements in local currency	0	2	5	599.394.177	184.867.681	414.526.496	417.221.628
d) Prepayments in local currency	0	2	6	12.720.054	534.357	12.185.697	13.108.553
e) Other placements in foreign currency	0	2	7	11.080.965	7.729.004	3.351.961	74.898
f) Due placements and current maturities of long-term placements in foreign currency	0	2	8	16.365.708	10.070.734	6.294.974	3.311.796
g) Prepayments in foreign currency	0	2	9	815.673	6.935	808.738	630.892
7. Inventories	0	3	0	3.337.354	2.186.403	1.150.951	999.151

BALANCE SHEET (Statement of financial position as at 31.12.2013) (CONTINUED)

in KM

ITEM	Code for AOP	Current year Gross	Current year Impairment value	Current year Net (3-4)	Previous year (initial balance)
1	2	3	4	5	6
8. Fixed available for sale assets	031	0	0	0	0
9. Assets of discontinued operations	032	0	0	0	0
10. Other assets	033	0	0	0	0
11. Value added tax prepayment	034	0	0	0	0
B. FIXED ASSETS (036+041)	035	219.352.039	151.817.718	67.534.321	76.967.433
1. Tangible assets and investment in property (037 to 040)	036	168.852.410	112.726.192	56.126.218	63.477.998
a) Tangible assets owned by the bank	037	139.399.097	87.459.778	51.939.319	56.226.168
b) Investment in property	038	28.047.055	25.266.414	2.780.641	4.551.467
c) Fixed assets acquired under financial lease	039	0	0	0	0
d) Advances and acquired but not brought into use	040	1.406.258	0	1.406.258	2.700.363
2. Intangible assets (042 to 046)	041	50.499.629	39.091.526	11.408.103	13.489.435
a) Goodwill	042	0	0	0	0
b) Investment in development	043	0	0	0	0
c) Intangible assets under financial lease	044	0	0	0	0
d) Other intangible assets	045	44.758.380	39.091.526	5.666.854	8.250.064
e) Advances and assets acquired but not brought into use	046	5.741.249	0	5.741.249	5.239.371
C. DEFFERED TAX ASSETS	047	0	0	0	0
D. OPERATING ASSETS (001+035+047)	048	4.193.269.998	448.042.695	3.745.227.303	3.761.805.320
E. OFF BALANCE SHEET ASSETS	049	875.616.377	0	875.616.377	909.356.278
F. TOTAL ASSETS (048+049)	050	5.068.886.375	448.042.695	4.620.843.680	4.671.161.598

ITEM	Code for AOP	Current year	Previous year (initial balance)
1	2	3	4
A. LIABILITIES (102+106+109+113)	101	3.166.395.664	3.238.282.773
1. Deposits and borrowings (103 to 105)	102	3.017.375.179	2.987.645.483
a) Deposits and interest-bearing borrowings in domestic currency	103	1.250.701.105	1.324.566.407
b) Hedging deposits and borrowings	104	80.934.041	60.005.379
c) Deposits and interest-bearing borrowings in foreign currency	105	1.685.740.033	1.603.073.697
2. Interests and fees (107+108)	106	43.710	64.937
a) Interests and fees in domestic currency	107	17.563	19.845
b) Interests and fees in foreign currency	108	26.148	45.092
3. Securities (110 to 112)	109	0	100.000.000
a) Securities in domestic currency	110	0	0
b) Hedging securities i domestic currency	111	0	100.000.000
c) Securities in foreign currency	112	0	0
4. Other liabilities and accruals (114 to 124)	113	148.976.775	150.572.353
a) Salaries and fees	114	2.734.345	2.488.460

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

BALANCE SHEET (Statement of financial position as at 31.12.2013) (continued)

in KM

ITEM	Code for AOP	Current year	Previous year (initial balance)
1	2	3	4
b) Other liabilities in domestic currency , excluding liabilities for tax and contributions	1 1 5	46.143.426	45.276.799
c) Tax and contributions ,excluding current and deffered income tax	1 1 6	2.213.086	1.811.768
d) Current tax liability	1 1 7	7.052.656	6.536.604
e) Deffered tax liability	1 1 8	1.397.540	1.397.540
f) Provisions	1 1 9	12.819.509	13.847.274
g) Accruals in domestic currency	1 2 0	12.954.073	14.640.812
h) Commission operations,AFS assets,discontinued operation assets,subordinated debt liabilities and current liabilities	1 2 1	1.312.925	1.337.483
i) Other liabilities in foreign currency	1 2 2	14.920.808	12.918.970
j) Accruals in foreign currency	1 2 3	18.559.497	17.357.908
k) Commission operations, due and subordinated liabilities and current maturities in goreign currency	1 2 4	28.868.910	32.958.735
B. EQUITY (126+132+138+142-148)	1 2 5	578.831.639	523.522.547
1. Issued share capital (127+128+129-130-131)	1 2 6	167.283.583	167.283.583
a) Share capital	1 2 7	119.195.000	119.195.000
b) Other forms of capital	1 2 8	0	0
c) Share premium	1 2 9	48.317.277	48.317.277
d) Registered but uncontributed capital	1 3 0	0	0
e) Repurchase of own shares	1 3 1	228.694	228.694
2. Reserves (133 to 137)	1 3 2	337.576.168	284.125.908
a) Reserves from profit	1 3 3	316.894.479	263.444.219
b) Other provisions	1 3 4	0	0
c) Provision for losses	1 3 5	20.681.689	20.681.689
d) General banking risk provisions	1 3 6	0	0
e) Transferred reserves (foreign exchange)	1 3 7	0	0
3. Revaluation reserve (139 to 141)	1 3 8	38.194	299.659
a) Revaluation reserve based on change in value of fixed assets and intangible investments	1 3 9	0	0
b) Revaluation reserve based on change in value of securities	1 4 0	38.194	299.659
c) Other revaluation resererves	1 4 1	0	0
4. Profit (143 to 147)	1 4 2	73.933.694	71.813.397
a) Profit for the year	1 4 3	55.570.557	53.450.260
b) Unallocated profit from prior years	1 4 4	18.363.137	18.363.137
c) Surplus of income over expenses for the period	1 4 5	0	0
d) Unallocated surplus of income over expenses for previous years	1 4 6	0	0
e) Retained earnings	1 4 7	0	0
5. Loss (149+150)	1 4 8	0	0
a) Loss for the period	1 4 9	0	0
b) Loss from previous years	1 5 0	0	0
C. LIABILITIES (101+125)	1 5 1	3.745.227.303	3.761.805.320
D. OFF BALANCE SHEET LIABILITIES	1 5 2	875.616.377	909.356.278
E. TOTAL LIABILITIES (151+152)	1 5 3	4.620.843.680	4.671.161.598

INCOME STATEMENT (Statement on the overall result for the period from 01.01. to 31.12.2013)

in KM

ITEM	Code for AOP	VALUE Current year	Prior year
1	2	3	4
A. OPERATING INCOME AND EXPENSES			
1. Interest income	2 0 1	180.562.607	185.470.831
2. Interest expense	2 0 2	40.467.992	48.193.054
Net interest income (201-202)	2 0 3	140.094.615	137.277.777
Net interest expense (202-201)	2 0 4	0	0
3. Fee and commissions income	2 0 5	73.141.671	68.181.741
4. Fee and commissions expense	2 0 6	9.681.994	9.187.303
Net fee and commission income (205-206)	2 0 7	63.459.677	58.994.438
Net fee and commission expense (206-205)	2 0 8	0	0
5.Gains from sale of securities and shares (210 to 213)	2 0 9	0	47.143
a) Gains from sale of securities at fair value through profit and loss	2 1 0	0	0
b) Gains from sale of available for sale securities	2 1 1	0	47.143
c) Gains from sale of securities held to maturity	2 1 2	0	0
d) Gains from sale of participation (share)	2 1 3	0	0
6. Losses from sale of securities and shares (215 to 218)	2 1 4	0	0
a) Losses from sale of securities at fair value through profit and loss	2 1 5	0	0
b) Losses from sale of available for sale securities	2 1 6	0	0
c) Losses from sale of securities held to maturity	2 1 7	0	0
d) Losses from sale of participation (share)	2 1 8	0	0
Net gains from sale of securities and shares (209-214)	2 1 9	0	47.143
Net losses from sale of securities and shares (214-209)	2 2 0	0	0
OPERATING PROFIT (201+205+209-202-206-214)	2 2 1	203.554.292	196.319.358
OPERATING EXPENSE (202+206+214-201-205-209)	2 2 2	0	0
B. OTHER OPERATING INCOME AND EXPENSE			
1. Operating income (224+225)	2 2 3	0	0
a) Income from leasing activities	2 2 4	0	0
b) Other operating income	2 2 5	0	0
2. Operating expense (227 to 236)	2 2 6	119.558.115	117.531.942
a) Expenses of gross salaries and contribution expense	2 2 7	44.811.251	45.132.406
b) Expenses of fees for temporary and occasional work contracts	2 2 8	389.586	36.607
c) Other personnel expenses	2 2 9	4.831.081	3.402.228
d) Material expenses	2 3 0	3.619.725	4.624.480
e) Production services expenses	2 3 1	28.479.858	27.245.152
f) Depreciation expenses	2 3 2	13.885.058	14.078.679
g) Expenses from leasing activities	2 3 3	0	0
h) Non-material expenses (excluding taxes and contributions)	2 3 4	21.829.917	21.406.193
i) Tax and contributions expenses	2 3 5	1.711.639	1.606.197
j) Other expenses	2 3 6	0	0
OTHER OPERATING PROFIT (223-226)	2 3 7	0	0
OTHER OPERATING EXPENSE (226-223)	2 3 8	119.558.115	117.531.942

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

INCOME STATEMENT (Statement on the overall result for the period from 01.01. to 31.12.2013) (CONTINUED)

in KM

ITEM	Code for AOP	VALUE Current year	VALUE Prior year
1	2	3	4
C) GAIN AND LOSS ON PROVISIONS			
1. Bad debts recovered (240 to 243)	2 3 9	162.614.743	210.358.066
a) Income from recovered provisions for placements	2 4 0	142.107.014	183.030.586
b) Income from recovered provisions for off-balance sheet items	2 4 1	19.765.533	22.819.785
c) Income from recovered provision for liabilities	2 4 2	742.196	4.507.695
d) Income from other provisions recovered	2 4 3	0	0
2. Provision charges (245 to 248)	2 4 4	184.953.304	232.437.477
a) Provisions charges for placements	2 4 5	163.513.054	206.877.092
b) Provision charges for off-balance sheet items	2 4 6	20.591.828	23.517.643
c) Charges based on provisions for liabilities	2 4 7	764.878	1.794.652
d) Other provision charges	2 4 8	83.544	248.090
PROVISIONS INCOME (239-244)	2 4 9	0	0
PROVISION CHARGES (244-239)	2 5 0	22.338.561	22.079.411
D. OTHER INCOME AND EXPENSES			
1. Other income (252 to 258)	2 5 1	1.184.733	2.252.388
a) Income from bad debts previously written off	2 5 2	30.646	65.914
b) Losses from sales of fixed assets, and intangible investments	2 5 3	58.159	512.418
c) Income from reduction in liabilities	2 5 4	0	0
d) Income from dividends and shares	2 5 5	9.478	9.648
e) Surplus	2 5 6	26.691	27.947
f) Other income	2 5 7	1.059.759	1.636.461
g) Gains grom discounted operations	2 5 8	0	0
2. Other expense (260 to 266)	2 5 9	1.127.696	677.026
a) Expense from bad debts written off	2 6 0	0	0
b) Losses from depreciation and fixed assets write off, and intangible assets	2 6 1	0	0
c) Losses from disposals and write-offs of fixed and intangible assets	2 6 2	353.435	18.977
d) Shortfalls	2 6 3	8.130	6.900
e) Inventorywrite-offs	2 6 4	0	0
f) Other expenses	2 6 5	766.131	651.149
g) Expenses from discontinued operations	2 6 6	0	0
GAIN FROM OTHER INCOME AND EXPENSES (251-259)	2 6 7	57.037	1.575.362
LOSS FROM OTHER INCOME AND EXPENSES (259-251)	2 6 8	0	0
OPERATING GAIN (221+237+249+267-222-238-250-268)	2 6 9	61.714.653	58.283.367
OPERATING LOSS (222+238+250+268-221-237-249-267)	2 7 0	0	0
E. INCOME AND EXPENSES FROM CHANGE IN VALUE OFF ASSETS AND LIABILITIES			
1. Income from changes in value of assets and liabilities (272 to 276)	2 7 1	145.409.621	167.322.197
a) Income based on change in value of placements and receivables	2 7 2	0	0
b) Income based on change in value securities	2 7 3	0	0
c) Income based on change in value of liabilities	2 7 4	0	0
d) Income based on change in value of fixed assets, investment real estate and intangible investments	2 7 5	0	0
e) Income from positive foreign exchange differences	2 7 6	145.409.621	167.322.197
2. Expenses from change in value of assets and liabilities (278 to 282)	2 7 7	144.118.853	165.669.226

INCOME STATEMENT (Statement on the overall result for the period from 01.01. to 31.12.2013) (CONTINUED)

in KM

ITEM	Code for AOP	VALUE Current year	Prior year
1	2	3	4
a) Expenses from change in value of placements and receivables	2 7 8	0	0
b) Expenses from change in value of securities	2 7 9	0	0
c) Expenses from change in value of liabilities	2 8 0	0	0
d) Expenses from change in value of fixed assets, investment real estate and intangible investments	2 8 1	81.584	607.000
e) Expenses from unfavorable foreign exchange differences	2 8 2	144.037.269	165.062.226
PROFIT ARISING FROM THE CHANGE IN VALUE OF ASSETS AND LIABILITIES (271-277)	2 8 3	1.290.768	1.652.971
LOSS FROM CHANGE IN VALUE OF ASSETS AND LIABILITIES (277-271)	2 8 4	0	0
PROFIT BEFORE TAX (269+283-270-284))	2 8 5	63.005.421	59.936.338
LOSS BEFORE TAX (270+284-269-283)	2 8 6	0	0
F. CURRENT AND DEFFERED INCOME TAX 1. Income tax	2 8 7	7.434.864	6.536.602
2. Profit from increase of deffered tax assets and decrease of deffered tax liabilities	2 8 8	0	50.524
3. Loss from decrease of deffered tax assets and increase of deffered tax liabilities	2 8 9	0	0
PROFIT AFTER TAX (285+288-287-289) ili (288-286-287-289)	2 9 0	55.570.557	53.450.260
LOSS AFTER TAX (286+287+289-288) ili (287+289-285-288)	2 9 1		0
G. OTHER PROFIT AND LOSSES FOR THE PERIOD 1. Capital gains (293 to 298)	2 9 2	0	0
a) Income from decrease of revalorisation reserves in fixed assets and intangible investments	2 9 3	0	0
b) Income from change of fair value of securities available for sale	2 9 4	0	0
c) Income from transferring financial reports of foreign operations	2 9 5	0	0
d) Actuarial income from defined income scheme	2 9 6	0	0
e) Effective part of income based on cash flow hedging	2 9 7	0	0
f) Other capital gains	2 9 8	0	0
2. Capital losses (300 to 304)	2 9 9	261.465	292.384
a) Losses from change in fair value of securities available for sale	3 0 0	261.465	292.384
b) Losses from transferring financial reports of foreign operations	3 0 1	0	0
c) Actuarial loss from defined income scheme	3 0 2	0	0
d) Effective part of loss from cash flow hedging	3 0 3	0	0
e) Other capital gains	3 0 4	0	0
NET GAIN/ LOSSES TOTAL RESULT FOR THE PERIOD (292-299) or (299-292)	3 0 5	-261.465	-292.384
H. INCOME TAX RELATING TO OTHER TOTAL RESULT FOR THE PERIOD	3 0 6	26.146	29.238
OTHER TOTAL RESULT FOR THE PERIOD (305±306)	3 0 7	-235.319	-263.146
TOTAL NET PROFIT FOR THE YEAR (290±307)	3 0 8	55.335.238	53.187.114
TOTAL NET LOSS FOR THE PERIOD (291±307)	3 0 9	0	0
Part od profit/loss attributable to majority shareholders	3 1 0	0	0
Part od profit/loss attributable to minority shareholders	3 1 1	0	0
Basic earnings per share	3 1 2	467	449
Diluted earings per share	3 1 3	467	449
Average number of employees based on hours worked	3 1 4	1.293	1.321
Average number of employees based on periods end	3 1 5	1.281	1.311

Respond

With a smile and a desire to help.

"One of my Customers had just gotten married and was about to set off on her honeymoon when she called me in a panic: her credit card had been cloned. I immediately arranged for her to be sent a new card, but several days passed and the card did not turn up. I was worried, but I didn't let on to the Customer. I kept looking into it and found out that the courier had sent the card to the wrong address. I tracked down the courier and made sure the card was delivered to the right address in time. I called the Customer, who **was delighted that she could now enjoy** her honeymoon!"

Rita Pattuelli - Private Banking
Bologna Centro - UniCredit SpA

Address and phone numbers

HEADQUARTERS

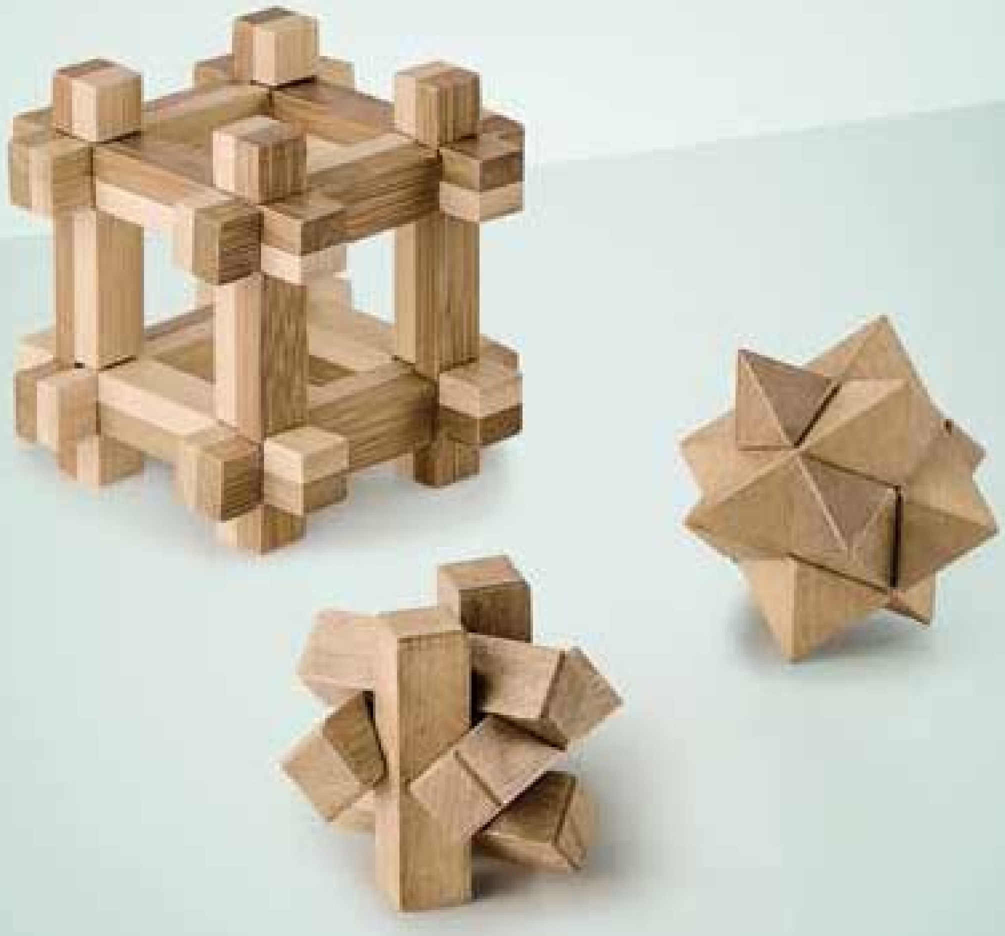
Adresa	Kardinala Stepinca b.b., Mostar
Phone	00387 (0) 36 312 112
Fax	00387 (0) 36 356 227
Switchboard	00387 (0) 36 312 112
	00387 (0) 36 312 116
Retail	00387 (0) 36 312 112
Corporate	00387 (0) 33 491 708
Risk management	00387 (0) 36 312 112
Finance	00387 (0) 36 356 610
GBS	00387 (0) 36 312 112

Resolve

Anytime, anywhere.

“On her way back from holiday, one of my Customers had a problem with her car, forcing her to call for assistance.
The problem was serious, and the daily limit on her debit card did not permit our Customer and her husband to pay for the repairs.
She called me on the verge of panic, and I went straight to work to **solve the problem as quickly as possible**. They were able to pay their bill and set off again with peace of mind.
When they got home, I received a phone call from my Customer to thank me and let me know that after their **positive experience** with UniCredit, her husband **was becoming a Customer**.”

Silvia Rieder - Commercial Bank
Pressbaum Branch 2099 - UniCredit Bank Austria



Business network of UniCredit Bank d.d. as at 31 December 2013

Branch	Adress	City	ZIP code	Phone
BUSINESS CENTER MOSTAR				
Branch 1 Mostar (Mepas)	Kardinala Stepinca bb	Mostar (Mepas Mall)	88000	036/356 - 277
Branch 2 Mostar - Mostarka	Dubrovačka 4	Mostar (Mostarka)	88000	036/325 - 702
Branch 3 Mostar - Revija	Mostarskog bataljona 4	Mostar (Revija)	88000	036/501 - 412
Branch 5 Mostar(Ledara)	Kardinala Stepinca bb	Mostar (Ledara)	88000	036/333 - 902
Branch 6 Mostar (Biosfera)	Braće Fejića bb, Biosfera	Mostar	88000	036/502 - 303
Branch Čapljina	Augusta Šenoe bb	Čapljina	88300	036/810 - 712
Branch Stolac	Hrvatskih branitelja bb	Stolac	88360	036/858 - 444
Branch Neum	Dr. Franje Tuđmana bb	Neum	88390	036/880 - 149
Branch Čitluk	Kralja Tvrtka 1	Čitluk	88260	036/640 - 439
Branch Međugorje	Međugorje bb	Međugorje	88266	036/640 - 439
Branch Konjicu	Trg Državnosti bb	Konjic	88400	036/725 - 205
BUSINESS CENTER ZAPADNA HERCEGOVINA				
Branch Grude	Franje Tuđmana br. 124	Grude	88340	039/660 - 123
Branch 1 Široki Brijeg	Fra Didaka Buntića 13	Široki Brijeg	88220	039/700 - 212
Branch 2 Široki Brijeg	Fra Didaka Buntića bb	Široki Brijeg	8822	039/702 - 530
Branch Ljubuški	Kralja Zvonimira bb	Ljubuški	88320	039/831 - 340
Branch Livno	Kralja Tvrtka bb	Livno	80101	034/208 - 222
Branch Tomislavgrad	Brigade Kralja Tomislava bb	Tomislavgrad	80240	034/356 - 201
Branch Posušje	Fra Grge Martića 28	Posušje	88240	039/685 - 416
BUSINESS CENTER BOSNA SI				
Branch Orašje	Treća ulica 47	Orašje	76270	031/716 - 713
Branch Odžak	Titova 17	Odžak	76290	031/762 - 437
Branch Doboj	Kralja Dragutina 2a	Doboj	74000	053/241 - 111
Branch Brčko	Trg mladih 1	Brčko	76120	049/233 - 760
Branch Bijeljina	Svetog Save br 38	Bijeljina	76300	O55/225 - 090
BUSINESS CENTER SREDNJA BOSNA				
Branch Vitez	Petra Krešimira IV	Vitez	72250	030/717 - 410
Branch 1 Vitez	Poslovni centar 96, FIS	Vitez	72250	030/718 - 683
Branch Uskoplje	Bana Jelačića bb	Uskoplje	70240	030/494 - 181
Branch Donji Vakuf	770 Slavne Brdske brigade 23	Donji Vakuf	70220	030/259 - 661
Branch Novi Travnik	Kralja Tvrtka bb	Novi Travnik	72290	030/795 - 502
Branch Fojnica	Mehmeda Spahe 18	Fojnica	71270	030/547 - 022
Branch 1 Travnik	Bosanska 56	Travnik	72270	030/518 - 611
Branch Jajce	Hrvoja Vukčića Hrvatinića bb	Jajce	70101	030/654 - 560
Branch Rama	Kralja Tomislava bb	Rama	88440	036/771 - 061, 036/770 - 919
Branch Bugojno	Zlatnih ljiljana 16	Bugojno	70230	030/259 - 577
Branch Kiseljak	Josipa Bana Jelačića bb	Kiseljak	71250	030/877 - 122

Business network of UniCredit Bank d.d. as at 31 December 2013 (CONTINUED)

Branch	Adress	City	ZIP code	Phone
BUSINESS CENTER ZENICA				
Branch Žepče	Stjepana Tomaševića bb	Žepče	72230	032/880 - 785
Branch 1 Visoko	Branilaca 20a	Visoko	71300	032/730 - 056
Branch Zenica	Školska bb	Zenica	72000	032/449 - 346
Branch 1 Zenica	Londža 75/b	Zenica	72000	032/202 - 623
Branch Kaknj	Alije Izetbegovića bb	Kakanj	72240	032/557 - 215
Branch Tešanj	Titova bb	Tešanj	74260	032/665 - 196
Branch Jelah	Titova bb	Jelah	74264	032/664 - 426
Branch Breza	Alije Izetbegovića 80	Breza	71370	032/786 - 014
Branch Zavidovići	Pinkasa Bandta 3	Zavidovići	72220	032/869 - 200
Branch Vareš	Zvijezda 63	Vareš	71330	032/848 - 030
Branch Olovo	Branilaca 17	Olovo	71340	032/829 - 535
Branch Maglaj	Viteška bb	Maglaj	74250	032/609 - 811
BUSINESS CENTER BIHAĆ				
Branch Bihać	Ulica V. Korpusa bb	Bihać	77000	037/223 - 051
Branch 1 Bihać	Trg slobode 7	Bihać	77000	037/229 - 270
Branch Velika Kladuša	Maršala Tita 23	Velika Kladuša	77230	037/776 - 606
Branch Cazin	Bosanskih Šehida bb	Cazin	77220	037/515 - 200
Branch 1 Cazin	Cazinskih brigada bb	Cazin	77220	037/515 - 016
Branch Bosanska Krupa	Slavne brigade 511	Bosanska Krupa	77240	037/476 - 880
Branch 1 Sanski Most	Trg oslobodilaca bb	Sanski Most	79260	037/688 - 545
BUSINESS CENTER SARAJEVO STARI GRAD				
Branch 1 Sarajevo	Maršala Tita 48	Sarajevo.	71000	033/253 - 396
Branch 3 Sarajevo	Zagrebačka 2-4	Sarajevo (Kovačići)	71000	033/253 - 973
Branch 4 Sarajevo	Alipašina 45a	Sarajevo (Ciglane)	71000	033/560 - 790
Branch 11 Sarajevo	Gajev trg 2	Sarajevo	71000	033/251 - 950
Branch 12 Sarajevo	Zelenih beretki 24	Sarajevo	71000	033/491 - 767
Branch 13 Sarajevo	Branilaca grada 53	Sarajevo	71000	033/221 - 700
Branch 14 Sarajevo	Maršala Tita 13	Sarajevo	71000	033/201 - 981
Branch 15 Sarajevo	Bolnička 25	Sarajevo	71000	033/218 - 201
Branch 16 Sarajevo	Fra Anđela Zvizdovića 1	Sarajevo UNITIC	71000	033/252 - 280
BUSINESS CENTER NOVO SARAJEVO				
Branch 2 Sarajevo	Zmaja od Bosne 14C	Sarajevo	71000	033/723 - 690
Branch 7 Sarajevo	Trg međunarodnog prijateljstva 14	Sarajevo	71000	033/776 - 130
Branch 9 Sarajevo	Hifzi Bjelevca 82	Sarajevo	71000	033/778 - 750
Branch 17 Sarajevo	Dr.Fetaha Bećirbegovića 23A	Sarajevo (OTOKA)	71000	033/721 - 815
Branch 18 Novo Sarajevo	Zmaja od Bosne 74	Sarajevo	71000	033/659 - 704
Branch 19 Sarajevo	Mustafe Kamarića 5	Sarajevo (Dobrinja)	71000	033/775 - 851
Branch 20 Sarajevo	Brčanska 14	Sarajevo (OTOKA)	71000	033/721 - 971
Branch Vogošća	Igmanska 60	Vogošća	71320	033/476 - 361
Branch Ilidža	Mala Aleja 10	Ilidža	71210	033/627 - 937
Branch Hadžići	Hadželi 153	Hadžići	71240	033/475 - 390

Branch	Adress	City	ZIP code	Phone
BUSINESS CENTER TUZLA				
Branch 1 Tuzla	Džafer Mahala 53-55	Tuzla	75000	035/259 - 059
Branch 2 Tuzla	Armije BiH 3	Tuzla	75000	035/306 -478
Branch 3 Tuzla	Aleja Alije Izetbegovića 10	Tuzla	75000	035/302 - 470
Branch Gradačac	Ulica šehida 1	Gradačac	76250	035/822 - 500
Branch Lukavc	Kulina Bana bb	Lukavac	75300	035/551 - 331
Branch Gračanica	22 Divizije bb	Gračanica	75320	035/701 - 471
Branch Srebrenik	21 Srebreničke Brigade	Srebrenik	75350	035/646 - 094
Branch Živinice	Ulica Oslobođenja bb	Živinice	75270	035/743 - 143
Branch Kalesija	Trg šehida bb	Kalesija	75260	035/610 - 114
BUSINESS CENTER BANJA LUKA				
Branch Banja Luka	I Krajiškog korpusa br.39	Banja Luka	78000	051/348 - 063
Branch 1 Banja Luka	Veselina Masleše 10	Banja Luka	78000	051/224 - 856
Branch Laktaši	Karađorđeva bb	Laktaši	78250	051/530 - 662
Branch Prijedor	Zanatska bb	Prijedor	79101	052/234 - 258

Support

Flexibility to meet Customer needs.

"As the result of a discussion among different sections of the Risk Division, we realized that it is important to tailor communications according to the needs of each Customer. We worked together as a team, sharing our research and knowledge. This ultimately led to more flexible reports and made us more responsive and proactive, **improving the skills and cohesion of all internal departments**."

Francesco Ivan Pomarico
Group Financial Risk - UniCredit Holding

UniCredit Bank