Annual Report
2013

SPARKASSE BANK

Sparkasse Bank d.d.

Annual Report

2013

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Profile

Profile

Sparkasse Bank dd

Tran. account: 1990000000000023
IB.: 4200128200006
SWIFT: ABSBBA 22

Headoffice

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E-mail: info@sparkasse.ba
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SparkasseBankBiH
Sparkassebih
www.sparkasse.ba

Facts (2013)

Founded in:	1999. godina
Assets:	961 miliona KM
Owner:	Steiermärkische Sparkasse (97%)
Number of affiliates:	46
Number of clients:	cca. 170 000
Number of employees:	463

Group members in BiH

LEASING
Company for leasing of vehicles, machinery and vessels.

SPARKASSE
Nekretnine
Company for mediation in realestate trade.

PREMIUM
Company for mediation in insurance operations.

Management

CEO
Sanel Kusturica, MBA

Executive director
Mag. Nedim Alihodžić

Executive director
Mag.Amir Softić

Supervisory Board

Chair
Sava Dalbokov, MBA

Members
Mag. Gerhard Maier
Hamdija Alagić
Mag. Renate Ferlitz
Dr. Georg Bucher

Profile

Our owner.

Our bank is almost one hundred percent owned by Steiermärkische Sparkasse, which, with its business network and members in Steirermark and South East Europe, is the largest regional bank the south of Austria. The Group has a long-term and sustainable investment strategy in the region which makes it a reliable partner and investor backing up Sparkasse Bank and BiH.
As a member of Erste Bank and Sparkassen Austria, it is a part of the strongest group of banks focused on operations with the population, small and medium enterprises in Europe.

Sparkasse and sign.

Over almost 200 years of its operation, our mother bank, Steiermärkische Sparkasse, has developed into a recognizable trademark Sparkasse with the red that stands for:

- safety, trust and tradition, which make it a reliable partner for employees and clients
- solid, crisis-proof business model of a strong and successful group
- successful economic concept that maintains social responsibility principles.

Our vision.

To become one of the strongest banks in the country using business tools based on the best banking practices.

Our objective.

Our objective is to develop towards the international standards of the group into a modern bank that maintains traditional values of Sparkasse, and is oriented towards operations with population, small and medium enterprises. Final goal is the long-term growth and development made possible by satisfied employees and clients.

Our mission.

Sparkasse Bank dd cares about the success of its clients:

- Competently
- With tailor-made solutions
- With continuous improvement of offer
- In the long term.

Our guidelines

We take responsibility.

We consider the success of our clients and employees, and contribution to the society, our responsibility.

Reliability creates friendships.

We respect business ethics. Partnership with clients and employees is the key to their fidelity.

Cooperation with full trust.

We communicate openly and frankly. We always keep to our word.

Safety with guaranty.

Protection of our clients and our employees for us is a must. We do it with all means available.

Tailor-made solutions.

There are no universal solutions – every client has the right to an offer created according to their individual needs. That is why we devote our attention, time and commitment to each one of them.

Courage as a chance.

Our team is guided by the principles of self-initiative, accepting new ideas and challenges, and ambition in the fulfilment of our objectives.

Management

Management

Sanel Kusturica
General manager

Funkcije u nadležnosti:
Retail, Human Resources, Marketing, communications and service quality, Treasury, Operations, Secretariat.

Nedim Alihodžić
Executive manager

Corporate, IT and organization, Property and security management

Amir Softić
Executive manager

Funkcije u nadležnosti:
RISK management, Legal operations, Accounting and controlling, AML, Compliance.

Introductory address of the General Manager

Business operations in 2013 marked by steady and healthy growth

Respected friends,

It is my great pleasure to have the opportunity to present yet another successful year on behalf of the Sparkasse Bank Bosnia and Herzegovina team.

The year of 2013 was marked by steady and healthy growth of all business indicators, and we are one step closer to meeting our vision – reaching the very top of the banking market. Our assets, credits, deposits and capital grew in pace significantly faster than the market trends, which means that we stood out on the banking market in terms of our dynamic and active approach to sales.

We are above all glad that, despite negative investment trends, we managed to intensify credits to business thus contributing the recovery of our country. Significant steps forward were noted in the segment of small and medium enterprises, which is one of the fundamental economic growth generators. We also discovered innovative ways to optimize our expenses and managed to increase efficiency with CIR of about 57%.

Another very important fact is that our above the average growth of the credit segment was achieved by responsible credit risk management, which means that the health of our assets and stability we owe to our owners and depositors were never out of our sight. Although the year of 2013 in the banking sector was marked by the growth of poor quality credits reaching a share of 15.1% of the total credit segment, we managed to keep this share to 9.3%, and credit loss reserve coverage of poor quality credits at high 95%.

A very positive aspect is the growth of the private deposits in our bank of about 12% in 2013, but also continuous growth of savings in all previous years. This indicates the trust that the population has in the Sparkasse brand and a positive development of its reputation on the market, which is for sure one of the greatest rewards for the efforts that the whole team invested. And eventually, our business activity resulted in the growth of profitability by 31% and a positive consolidated financial result of 9.3 million KM. Although our team is yet to face a long journey to achieving desired ROC rate, on a market where the banking sector suffered significant loss in 2013, we can be satisfied with the results achieved.

Moreover, modest performances of the European economy, as well as the economy in Bosnia and Herzegovina in the year before, did certainly not make our sales department's job easy. It was despite of it that extraordinary individual and collective efforts managed to handle challenges of this business environment and achieve targeted planned amounts.

In the end, all that was achieved in 2013 and in the years before needs to be viewed and evaluated through the lens of us being a useful and responsible member of the community in which we work. I would say that we achieved our elementary responsibility through economic stability and prosperity, as only an economically successful organization can contribute to the economy of a country, provide steady workplaces to its employees and be a reliable partner to its clients. However, the mission and the guiding thought of our Sparkasse Group means more than that. It is an active role in the field of social responsibility through the support to social entrepreneurship, marginalized groups and youth employment. This path has been followed so far and we are committed to continue following it in the years ahead. So far we have had the unconditioned support by our owner, the Steiermaerkische Sparkasse, trust of our clients and partners, and loyalty of our employees.

We are sincerely grateful for all this and convinced that the trust that you have had in us so far will be justified by our future business sucesses!

Sparkasse Bank Manager
Sanel Kusturica

Business environment in B&H

Business environment in B&H

Economy in B&H in a moderate general recovery phase in 2013

More favorable global trends and favorable weather conditions in 2013 made it possible for Bosnia and Herzegovina to take some encouraging steps forward, especially in foreign trade, but at the same time the overall economic image has not changed significantly in comparison to the last year's stagnation. Moderate GDP growth and improved exports, together with the reduced current account deficit, are mostly the result of the positive trends in some industries, and not strategic improvements of business environment and competitiveness, and their sustainability will depend on numerous internal and external factors.

There are no records of the growth of the domestic demand so all steps forward are made on the markets abroad, which in a way causes economic dependence. Although the Currency Board mechanism on which the Central Bank bases its operations and provides fixed currency security for the Convertible Mark linked to Euro, statistically keeps inflation on the minimum, real increase of prices of consumer goods, energy and food presents a growing burden.

Pokazatelj	2009	2010	2011	2012	2013
Nominal GDP (in mill. KM), current prices	24.307	24.879	25.772	25.734	26.262**
GDP p/c (in KM)	6.258	6.397	6.625	6.626	6.773**
Real GDP growth rate (%)	-2,9	1,3	1,0	-1,2	1,0
Inflation / Retail goods price growth rate (%)	-0,4	2,1	3,1	1,8	-1,2
Gross foreign currency reserves (in mill. KM)	6.212	6.458	6.424	6.509	7.067
Export (in mill. KM)	5.634	7.294	8.430	8.184	8.596
Import (in mill. KM)	12.032	13.329	15.126	14.938	14.854
Export-import ratio (in mill. KM)	-6.398	-6.036	-6.696	-6.754	-6.258
Foreign direct investments (in mill. KM)	352	600	694	558	411*
Average net salary (in KM)	802	818	828	826	827
Foreign debt (in mill. KM)	5.234	6.285	6.661	7.132	7.405*

*) Data includes three quarters of 2013
**) Estimate (IMP)

Bosnia and Herzegovina's foreign debt additionally grew, mostly due to the stand-by arrangement with European Financial Institutions (EIB, EBRD), resulting in the total foreign debt of 7.4 billion KM, which is over 28% of GDP.
Generally taken, foreign investments continued decreasing, partly due to unfavorable business environment, partly due to global trends, but certain sectors still showed good potential for development. For example, the energy sector contributed the most to the improved macro-economic indicators, primarily in the field of production and export of electric power. Record results of the domestic power production companies completely compensated for the loss and extensive import of electric power in 2012, creating grounds for the new investments in the future. On the long run, it is important that the production was initiated at the first solar energy plants, as well as a more intense implementation of wind power plant project, as well as the first steps in the production of power from biomass., although the potentials for the construction of new coal and hydro power plants are still the largest and the most profitable perspective for the future

Business environment in B&H

investments, long-term dispersion and the use of alternative power sources will contribute to sustainability and stability of the overall system. Quality and volume of oil production and export, on the other hand, simultaneously improves, but there is an enormous loss in oil refineries which puts its current contribution to the improved foreign trade balance in disproportion to the business results.

Traditionally, the metal production sector has always been the leader of the production, export and economic growth of Bosnia and Herzegovina. In this sector, the quality and competitiveness of car industry, aluminum and steel production and processing stand out in the year of 2013 as well.

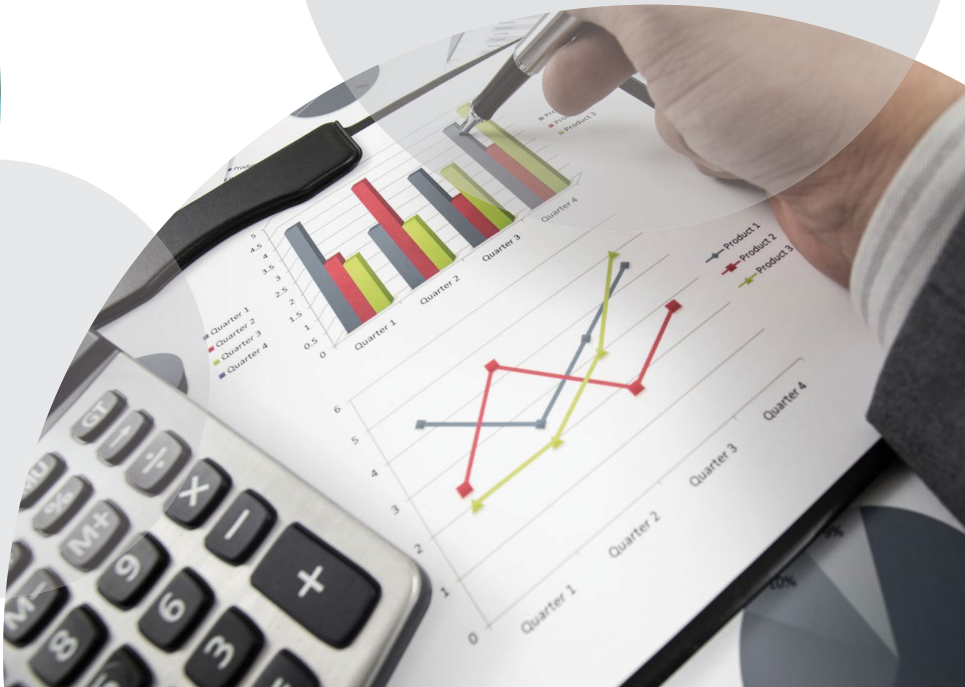
In 2013, forest and wood processing industry continued a long-term positive foreign trade trend, achieving high revenues above all thanks to the growing production and export of good quality furniture on foreign markets. Numerous new producers of smaller capacity but very fast growth, make up for some shortcomings of the large producers, creating good foundation for even those companies that have difficulties to hope for restructuring and reconstruction of their production. Having in mind natural resources and quality of raw materials, labor, processing capacities and reputation on the global, and especially on the European market, furniture production is certainly the most attractive industry for new investments and production development.

Agricultural sector made an important step forward in 2013, both on the domestic and on the export market. One of the few that significantly increased the placement of products on some new or previously insufficiently researched markets, such as the Middle East or Turkey, with strengthening and broadening market share in Bosnia and Herzegovina and CEFTA 2006 markets. The most recent acquisitions and regrouping of the leading domestic producers, as well as the improved technology and product quality, make the continuation of the positive trends in the foreign trade of food products possible.

Finance sector in Bosnia and Herzegovina mostly remains a synonym for banking, as neither insurance, nor some more sophisticated segments of the financial sector have importance even close to that of the banking sector. The key indicators of the (active assets, capital, credits and deposits) grew, with positive business operation of most banks, despite the total loss of the sector, and maintained stability and liquidity. Negative growth of poor quality credit share, from 11.4% to 2010 reached 15% in 2013, however parallel increase of the total reservation by 23% presents grounds for security and trust. The total economic situation did not make it possible for a stronger credit and deposit portfolio growth, but the trend is still positive.

Source: analysis by Igor Gavran
expert economist

Economic trends in 2013, besides numerous challenges and obstacles that both real and financial sector faced, especially the results of major exporters, indicate the possibility to remain trends of moderate general economic recovery in 2014. Economic trends could be significantly influenced by weather conditions, that determined export trends in the energy and agriculture sectors. The banking sector will look for space for continuation of the gradual credit growth, and in the years that follow we could hope for the grounds of a sustainable credit expansion.



Companies operating under the trademark in B&H

Companies operating under the trademark in B&H

Expert team in real-estate trade

Sparkasse Real Estate are an agency for the trade in real-estates on the free market in Bosnia and Herzegovina, with close cooperation with the Sparkasse Bank on product and service development within the Sparkasse group, with the final aim to offer coverage of all financial, business and housing needs in one place.

As it coordinates the process of determining value of real-estates through its 150 certified experts, Sparkasse Real-Estates have a direct insight into the trends on the market.

During 2013, in cooperation with the organizational units of the Sparkasse Bank, it implemented a new process of assessment of real-estate value, which contributed to the strategic risk management. This service for the clients has been enhanced in synergy with the Bank's Housing Center. A strong step ahead was made in the field of business consulting with major corporate clients and insurance companies.

Tamara Šerić, Sparkasse Real-Estates Manager:

"It is through continuous strengthening of the brand image, increasing number of competent agents and enhancing the range of products and services, in 2014, our small but dynamic team clearly aims towards the top of the real estates market."

SPARKASSE
Real Estates

Founded in: 2011

Number of employees: 3

Manager: Tamara Šerić

Ownership structure:

Sparkasse Bank d.d. Sarajevo – 49% share

Steiermärkische Bank und Sparkassen AG – 46% share

Realservice fuer steirische Sparkassen Realitaetenvermittlungs GmbH - 5% share

Companies operating under the trademark in B&H

The most dynamic sales force on the B&H leasing market

S-Leasing offers financing based on the financial and operational leasing, as well as financing purchase of passenger and freight vehicles, construction and production machinery, as well as industrial plants.

S-Leasing draws its competitive advantage from the creation of business solutions adequate to the needs of clients, as well as the desire for cooperation and long-term partnership. Furthermore, thanks to its approach integrated with the Sparkasse Bank and its services offered through a network of affiliates, S-Leasing's growing success and market share in the new financing becomes almost disproportional to its team of eleven.

Keeping in ming efficiency and sales per employee in the leasing sector, the S-Leasing stands out as the most dynamic sales force on the market. Average annual financing volume per employee in this sector in 2013 is €534 thousand, while the same average in the S-Leasing is €1,148 million, which implies that the S-Leasing employees accumulate the volume which is over two times higher than the sector average.

In 2013 the leasing sector witnessed a decrease of active assets, while at the same time the S-Leasing saw a positive growth of 8.6%, and its profit doubled in comparison to the previous year. This team with its extraordinary sales energy is a successful competitor on an extremely competitive market, and its market share grew from 12% in 2012 to 14% in 2013 in this new financing volume.

The S-Leasing team, lead by the Management, Elma Hošo, manager, and Sanel Bosnić, executive manager, have directed their efforts towards the following mission:

"To measure success by profitability, efficacy and overall growth, to base vreation of new business values on recognizing the needs of clients and long-term partnership."

LEASING

Founded in: 2007

Number of employees: 11

Manager: Elma Hošo

Ownership structure:

Steiermärkische Bank und Sparkassen AG – 51% share

Sparkasse Bank d.d. Sarajevo – 49% share

Companies operating under the trademark in B&H

Synergy of the Sparkasse Bank and S-Premium results in better service for clients

S-Premium acts as a broker in insurance operations, and according to one or several contracts or authorizations, acts on behalf of several insurance companies. As a broker it initiates, suggests and performs activities prior to signing contracts, and signs contracts. It also assists in implementation or execution of contracts, especially in case or compensation demands.

Among the most important activities recorded in 2013 for sure is the development of new products of the Private Banking Sector of the Sparkasse Bank, which achieved the following:

- more flexible products for clients
- better risk management
- enhancing target client group (increased potential)

The activities in cooperation with insurance companies included the development of specialized products for the bank, i.e. credits with insurance polities, i.e. risk combination. Simultaneously developed new operating procedures and software solution significantly improved cooperation between the Bank and the S-Premium, which created a more complete service for the client and raised the synergy between the Bank and the broker in insurance to a new level.

PREMIUM

Founded in: 2010

Number of employees: 4

Manager: Nadja Hrustanović

Ownership structure:

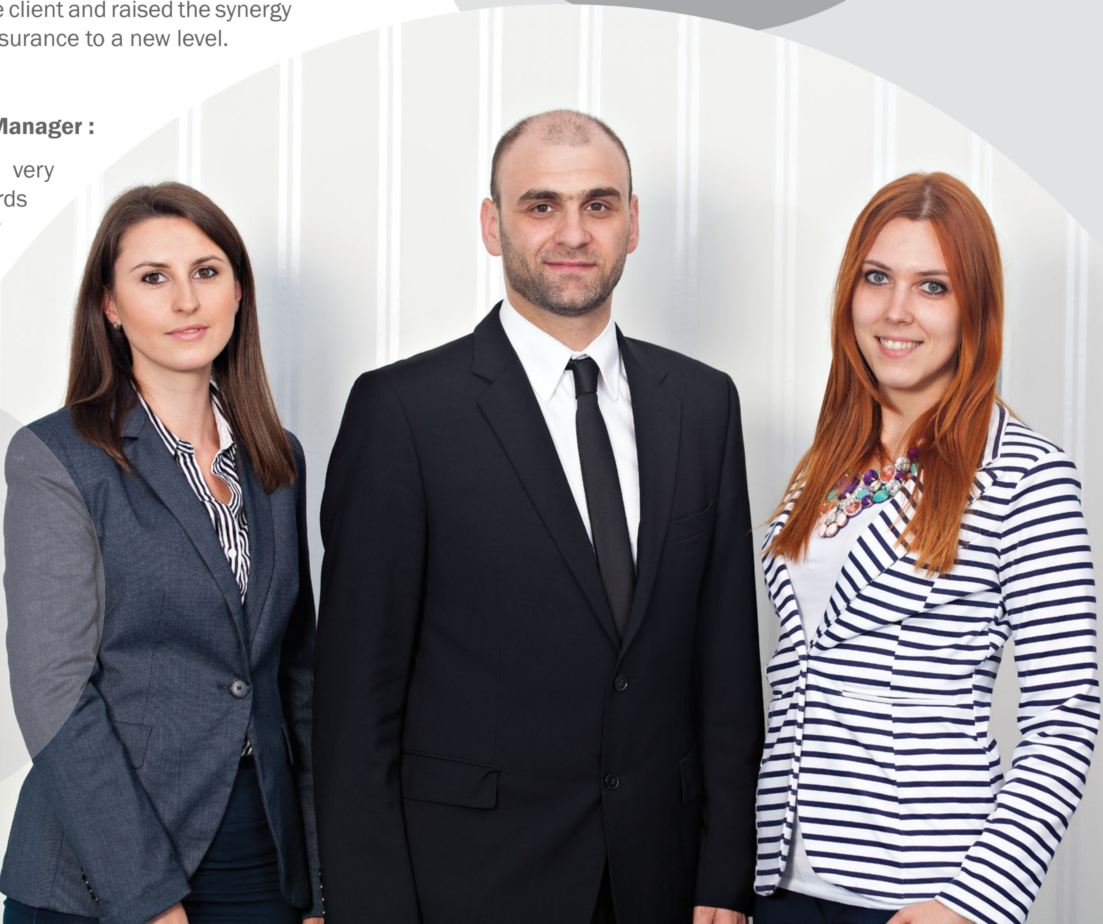
Sparkasse Bank d.d., Sarajevo - 49% share

S - Leasing d.o.o., Sarajevo - 40% share

Steiermärkische Bank und Sparkassen AG - 11% share

Sanjin Tankosić, S-Premium Deputy Manager :

"Considering the fact that since the very beginning we have been turned towards the open market, our plan is to enter the external market in the last quarter of 2014 as one of the most recognizable brokers in the insurance market."



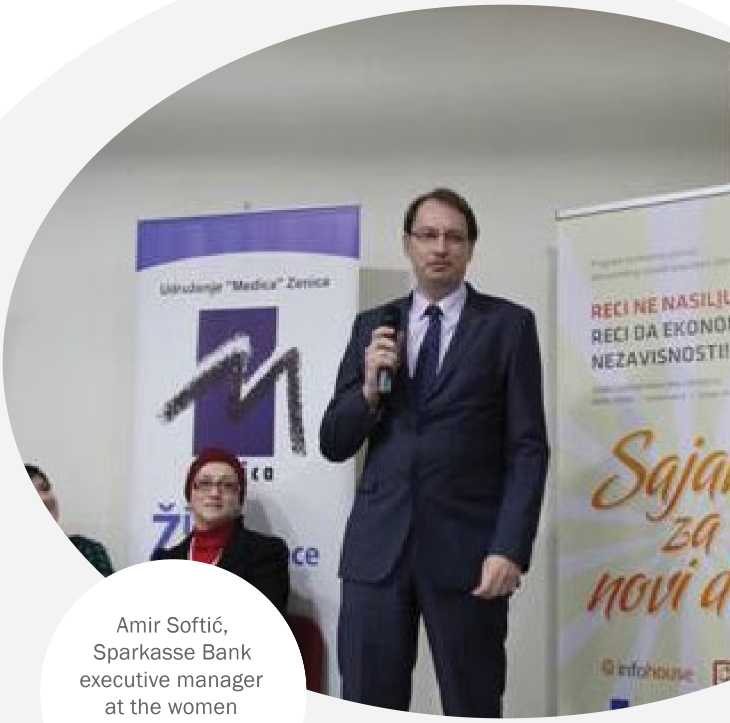
Benefit for the community

Support to women – violence victims to start their business

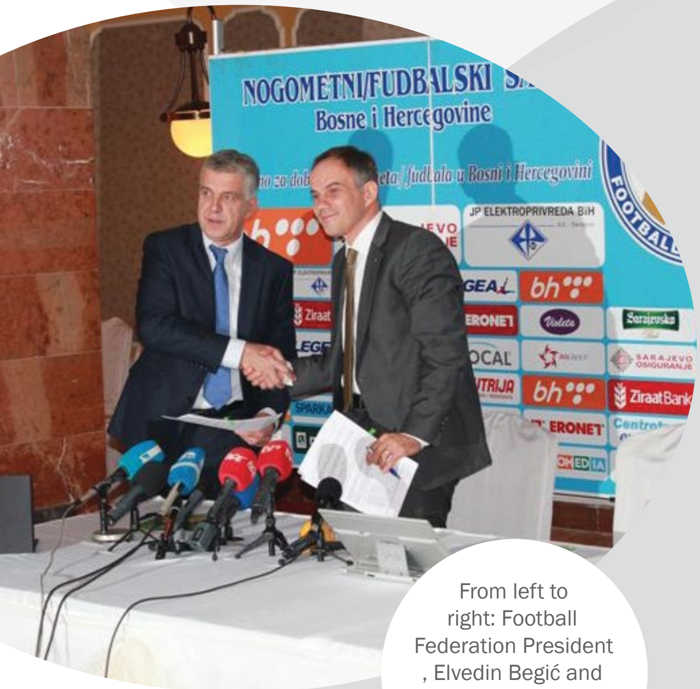
In cooperation, Steiermaerkische Sparkasse and Sparkasse Bank BiH have again, two years in a row, supported the project of the Association INFOHOUSE and Foundation CURE that works on the economic empowerment and employment of unemployed women. This year the support was given to women – violence victims, with the credo “Say NO to violence, say YES to economic independence”.

Twenty two selected women – violence victims received grants to start small businesses, and the chance to present their business ventures on a mini fair. Sparkasse Bank team offered these brave ladies education in the field of marketing and launching products on the market, and the Bank’s marketing team committed to months long monitoring of their business operations and support to women in market communication.

In this way, unemployed women who suffered violence, not only got money to start their own business, but also skills necessary to develop business and to succeed in the business world, and they had the chance to meet representatives of large companies with whom they discussed potential cooperation.



Amir Softić, Sparkasse Bank executive manager at the women entrepreneurship fair



From left to right: Football Federation President , Elvedin Begić and Sparkasse Bank executive manager, Nedim Alihodžić

Sparkasse Bank sponsors national football team at the World Championship

In 2013 the placement of the BiH national football team on the World Championship in Brazil showed that it can compete with the best in the world.

For a number of years the Sparkasse Bank has followed the BiH national football team as a sponsor, and in 2013 this friendship was extended for additional three years.

Financial education of the youngest population through the “Second Children’s University”

Recognizing the signs of the modern times and the upcoming changes in the field of education, mother bank, Steiermaerkische Sparkasse, in partnership with the Sparkasse Bank BiH has been supporting the “Second Children’s University in BiH” organized by the WUS Austria. The project links high education institutions, companies and elementary schools that educate and stimulate youngsters to learn about things they do not encounter in their regular school curriculum.

Children aged 10-12 went through education programs adjusted to their needs. The objective of this program is to awaken the children’s interest in science, technology and research, and to encourage them to work on their personal development, creativity and critical thinking. This is the way to promote the youngest in terms of defining their objectives and paths they should follow in the future.

Besides the financial support, the Bank offered expert support through a presentation on financial discipline for children.

Support to networking between Austrian and B&H entrepreneurs

Once again, in 2013 the Sparkasse Bank supported the business event “Austria Business Club” organized by the Trade Department of the Embassy of Austria in BiH to gather representatives of Austrian and BiH companies.

This business event is aimed at creating a network between Austrian companies and their potential importers, distributors and representatives, and to create a window for their cooperation.

The Sparkasse Bank has been a part of this project for a number of years with the desire to make it possible for the entrepreneurs of the two countries to establish business contacts with companies from their field or linked to their field. In this way the Bank gives a concrete contribution to the business success of companies involved, but also to the overall economic progress of the country.

Executive manager of the Sparkasse Bank, Nedim Alihodžić, addressing the “Austria Business Club”

Sparkasse Bank d.d.

Financial Reports

Financial statements for the year ended 31 December 2013 prepared in accordance with International Financial Reporting Standards and Independent Auditors' Report

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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 Sparkasse Bank d.d. (the "Bank") and its related companies (together the "Group") 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

Sanel Kusturica, director

Sparkasse Bank d.d.
Zmaja od Bosne 7
71000 Sarajevo
Bosnia and Herzegovina

14 April 2014

Independent Auditor's Report

To the Shareholders of Sparkasse Bank d.d.

We have audited the accompanying consolidated financial statements of Sparkasse Bank d.d. (the "Bank") and its related companies (together referred to as: the "Group"), set out on pages 6 to 48 which comprise of the consolidated statement of financial position as at 31 December 2013 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Also, we have audited the accompanying unconsolidated financial statements of Sparkasse Bank d.d. (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 consolidated and unconsolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as Management determines is necessary to enable the preparation of consolidated and unconsolidated 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 consolidated and unconsolidated 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 consolidated and unconsolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and unconsolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated and unconsolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated and unconsolidated 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 Bank'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 consolidated and unconsolidated 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 Group and the Bank as of 31 December 2013, and their financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Other Matter

The financial statements of the Bank for the year ended 31 December 2012 were audited by another auditor who expressed unmodified opinion on those statements on 12 March 2013.

Deloitte d.o.o.

Sead Bahtanović, director and licensed auditor

Deloitte
d.o.o.
Jadranska bb
71000 Sarajevo
ID: 4200047380000

Sabina Softić, partner and licensed auditor

Sarajevo, Bosnia and Herzegovina

14 April 2014

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

(all amount are expressed in thousand KM, unless otherwise stated)

	Notes	Group 2013	Group 2012	Bank 2013	Bank 2012
Interest income and similar expenses	5	57.136	54.857	57.136	54.857
Interest expense and similar expenses	6	(16.770)	(18.048)	(16.770)	(18.048)
Net interest income		**40.366**	**36.809**	**40.366**	**36.809**
Fee and commission income	7	16.475	14.285	16.475	14.285
Fee and commission expense	8	(1.956)	(1.793)	(1.956)	(1.793)
Net fee and commission income		**14.519**	**12.492**	**14.519**	**12.492**
Foreign exchange gains, net	9	1.631	1.515	1.631	1.515
Other operating income	10	1.190	999	1.244	1.013
Operating income		**2.821**	**2.514**	**2.875**	**2.528**
Personnel expenses	11	(16.882)	(15.569)	(16.882)	(15.569)
Depreciation and amortization	24, 25	(3.172)	(2.906)	(3.172)	(2.906)
Administrative expenses	12	(15.908)	(14.208)	(15.908)	(14.208)
Operating expenses		**(35.962)**	**(32.683)**	**(35.962)**	**(32.683)**
Profit participation in joint companies	21	**596**	**54**	**-**	**-**
PROFIT BEFORE IMPAIRMENT LOSES, PROVISIONS AND INCE TAX		**22.340**	**19.186**	**21.798**	**19.146**
Impairment losses and provisions	13	(11.266)	(13.198)	(11.266)	(13.198)
Other provisions	14	(1.484)	1.390	(1.484)	1.390
Collected written off receivables		692	479	692	479
PROFIT BEFORE TAXATION		**10.282**	**7.857**	**9.740**	**7.817**
Income tax	15	(1.015)	(807)	(1.015)	(807)
NET PROFIT FOR THE YEAR		**9.267**	**7.050**	**8.725**	**7.010**
Other comprehensive income Items that that can be subsequently transferred to statement of profit or loss					
Financial assets available-for-sale		-	-	-	-
Changes in financial assets available-for-sale, net		(217)	705	(217)	705
TOTAL COMPREHENSIVE INCOME		**9.050**	**7.755**	**8.508**	**7.715**
Earnings per share (in KM)	16	**10,72**	**8,15**	**10,09**	**8,11**

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

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

(all amount are expressed in thousand KM, unless otherwise stated)

	Notes	Group 31 December 2013	Group 31 December 2012	Bank 31 December 2013	Bank 31 December 2013
Assets					
Cash and cash equivalents	17	90.774	65.392	90.774	65.392
Obligatory reserve with the CBBH	18	55.044	53.290	55.044	53.290
Placements with other banks	19	133	10.555	133	10.555
Loans and prepayments to customers, net	20	736.160	702.290	736.160	702.290
Investment in joint companies	21	1.301	152	705	98
Financial assets available-for-sale	22	36.175	23.785	36.175	23.785
Other assets	23	2.728	3.078	2.728	3.078
Prepaid expenses		1.358	1.247	1.358	1.247
Tangible and intangible assets	24	31.882	31.573	31.882	31.573
Investment property	25	6.054	6.180	6.054	6.180
		961.609	**897.542**	**961.013**	**897.488**
EQUITY					
Share capital	31	86.473	86.473	86.473	86.473
Share premium		3.000	3.000	3.000	3.000
Regulatory reserves		14.731	7.681	14.677	7.667
Reserves in accordance with FBA Decision		790	790	790	790
Reevalution reserves		126	343	126	343
Profit for the period		9.267	7.050	8.725	7.010
		114.387	**105.337**	**113.791**	**105.283**
LIABILITIES					
Due to other banks	26	256.242	263.832	256.242	263.832
Due to customers	27	560.823	517.347	560.823	517.347
Due to taken loans	28	19.766	2.541	19.766	2.541
Other provisions	29	5.758	3.984	5.758	3.984
Income tax liabilities		30	282	30	282
Other liabilities	30	4.603	4.219	4.603	4.219
		847.222	**792.205**	**847.222**	**792.205**
TOTAL LIABILITIES AND EQUITY		**961.609**	**897.542**	**961.013**	**897.488**

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

Signed for the and in the name of Sparkasse Bank d.d. on 14 April 2014.

Sanel Kusturica, Director

Amir Softić, Executive director

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

(all amount are expressed in thousand KM, unless otherwise stated)

	Group 2013	Group 2012	Bank 2013	Bank 2012
Operating activities				
Profit before taxation	**10.282**	**7.857**	**9.740**	**7.817**
Adjustments for net cash assets realized through operating activities:				
Depreciation and amortization	3.172	2.906	3.172	2.906
Gain on disposal of tangible and intangible assets, net	(75)	(61)	(75)	(61)
Impairment losses and provisions, net	12.750	11.808	12.750	11.808
Profit participation in joint companies	(596)	(54)	-	-
Interest income from financial assets held-to-maturity recognized in the statement of profit and loss and other comprehensive income	(1.184)	(808)	(1.184)	(808)
Dividend income recognized in the statement of profit and loss and other comprehensive income	(9)	(17)	(63)	(31)
Cash flow before changes in operating assets and liabilities:	*24.340*	*21.631*	*24.340*	*21.631*
Increase in obligatory reserve with the CBBH, net	(1.754)	(6.584)	(1.754)	(6.584)
Decrease in placements with other banks, before allowance, net	10.604	49.682	10.604	49.682
Increase in loans to customers, before allowance, net	(44.947)	(96.783)	(44.947)	(96.783)
Increase in other assets, before allowance, net	(120)	(2.467)	(120)	(2.467)
Decrease in due to other banks, net	(7.590)	(18.211)	(7.590)	(18.211)
Increase in due to customers, net	43.476	99.191	43.476	99.191
Increase / (decrease) in other liabilities, net	392	(2.028)	392	(2.028)
Cash from operating activities	**24.401**	**44.431**	**24.401**	**44.431**
Income tax paid	(985)	(525)	(985)	(525)
Net cash from operating activities	**23.416**	**43.906**	**23.416**	**43.906**
Investing activities				
Purchase of financial assets available-for-sale	(11.435)	(5.123)	(11.435)	(5.123)
Investment in joint companies	(607)	-	(607)	-
Purchase of tangible and intangible assets	(3.378)	(2.766)	(3.378)	(2.766)
Purchase of investment proprerty	(3)	(3)	(3)	(3)
Proceeds from disposal of tangible assets	101	65	101	65
Dividend received	63	31	63	31
Net cash used in investing activities	**(15.259)**	**(7.796)**	**(15.259)**	**(7.796)**
Financial activities				
Withdrawal / (repayment) of loans taken	17.225	(4.172)	17.225	(4.172)
Net cash realized / (used) in financial activities	**17.225**	**(4.172)**	**17.225**	**(4.172)**
Net incerase in cash and cash equivalents	**25.382**	**31.938**	**25.382**	**31.938**
Cash and cash equivalents at 1 January	**65.392**	**33.454**	**65.392**	**33.454**
Cash and cash equivalents at 31 December	**90.774**	**65.392**	**90.774**	**65.392**

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

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

(all amount are expressed in thousand KM, unless otherwise stated)

Group	Share capital	Share premium	Accumulated income	Regulatory reserves	Revaluation reserves	Retained earnings	Total
31 December 2011	**86.473**	**3.000**	**2.047**	**33**	**(362)**	**6.391**	**97.582**
Profit distribution for year 2011	-	-	5.634	757	-	(6.391)	-
Net profit for the year	-	-	-	-	-	7.050	7.050
Other comprehensive income	-	-	-	-	705	-	705
Total comprehensive income	-	-	-	-	*705*	*7.050*	*7.755*
31 December 2012	**86.473**	**3.000**	**7.681**	**790**	**343**	**7.050**	**105.337**
Profit distribution for year 2012	-	-	7.050	-	-	(7.050)	-
Net profit for the year	-	-	-	-	-	9.267	9.267
Other comprehensive income	-	-	-	-	(217)	-	(217)
Total comprehensive income	-	-	-	-	*(217)*	*9.267*	*9.050*
31 December 2013	**86.473**	**3.000**	**14.731**	**790**	**126**	**9.267**	**114.387**

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

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

Bank	Share capital	Share premium	Accumulated income	Regulatory reserves	Revaluation reserves	Retained earnings	Total
31 December 2011	**86.473**	**3.000**	**2.033**	**33**	**(362)**	**6.391**	**97.568**
Profit distribution for year 2011	-	-	5.634	757	-	(6.391)	-
Net profit for the year	-	-	-	-	-	7.010	7.010
Other comprehensive income	-	-	-	-	705	-	705
Total comprehensive income	-	-	-	-	*705*	*7.010*	*7.715*
31 December 2012	**86.473**	**3.000**	**7.667**	**790**	**343**	**7.010**	**105.283**
Profit distribution for year 2012	-	-	7.010	-	-	(7.010)	-
Net profit for the year	-	-	-	-	-	8.725	8.725
Other comprehensive income	-	-	-	-	(217)	-	(217)
Total comprehensive income	-	-	-	-	*(217)*	*8.725*	*8.508*
31 December 2013	**86.473**	**3.000**	**14.677**	**790**	**126**	**8.725**	**113.791**

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

Notes to financial statements for the year ending 31 December 2013

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

1. General

History and incorporation

Sparkasse Bank d.d. („Bank“) has been registered on July 9, 1999. with the relevent court in Sarajevo, under the number U/I-1291/99. On July 28, 1999 the Bank obtained, from Federal Banking Agency the permit to conduct its business, number 01-376/99. Banks headquarter is in Sarajevo, in the Zmaja od Bosne 7 street.

The majority shareholder of the Bank is Steiermarkische Bank und Sparkassen AG, Graz Austria its share amounting 97%. The ultimate owner is Erste Group Austria. The consolidated financial statements can be found on the following address: Graben 21, Wiena, Austria.

The Bank invested in joint companies in accordance with share method, as follows:

Name of the company	Business activity	Country	31 December 2013 Share %	Share %
S-Leasing d.o.o Sarajevo	Leasing	Bosnia and Herzegovina	49	-
S-Premium d.o.o Sarajevo	Insurance agent	Bosnia and Herzegovina	49	49
Sparkasse Nekretnine d.o.o. Sarajevo	Real estate	Bosnia and Herzegovina	49	49

Principal activities of the Bank

The Bank offers its banking services through its developed branch network in Bosnia and Herzegovina as follows:

- epting deposit and placing of deposits,
- Providing current and term deposit accounts,
- Granting short and long-term loans and guarantees,
- Transactions on the interbank money market,
- Performing local and international payments,
- Debit and credit card operations,
- Providing banking services through a branch network in the Federation of Bosnia and Herzegovina.

Managing bodies of the Bank

Supervisory board

Sava Dalbokov	President
Gerhard Maier	Member
Hamdija Alagić	Member
Georg Bucher	Member
Renate Ferlitz	Member

Management board:

Sanel Kusturica	Director
Nedim Alihodžić	Executive director
Zahida Karić	Executive director up to do 1 September 2013
Amir Softić	Executive director

Audit board:

Samir Omerhodžić	President
Walburga Seidl	Member
Bernd Egger	Member
Slaviša Kojić	Member
Manfred Lackner	Member

2. Adoption of new and revised standards

2.1. 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),
- 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.

2.2. Standards and Interpretations in issue not yet adopted

At the date of authorization 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),
- 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, amendments and interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

3. Summary of significant accounting policies

Statement of compliance

These financial statements consist of consolidated and unconsolidated financial statements of the Bank, defined in International Financial Reporting Standard 10:"Consolidated financial statements" and International Accounting Standard 27:"Separate financial statements".

The consolidated and unconsolidated financial statements have been prepared in accordance with International Financial Reporting Standards (''IFRS''), as published by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee of the IASB (IFRIC).

Basis of preparation

These financial statements have been prepared on a historical cost basis, except for certain for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period.

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 Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such basis, except leasing transactions that are within the scope of IAS 17 and measurement that have some similarities 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 categorized 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 Group and the Bank. The Convertible mark (KM) is officially tied to the Euro (EUR 1 = KM 1.95583).

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and the Bank's shares in associates.

Investments in associates

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting from the date that significant influences commences until the date the significant influences ceases, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 ''Non-current Assets Held for Sale and Discontinued Operations''.

Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Bank's interest in that associate which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate are not recognised.

Any excess of the cost of acquisition over the Bank's share of the net fair value of the identifiable assets and liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Bank's share of the net fair value of the identifiable assets and liabilities after reassessment is recognised immediately in profit or loss. Where the companies within the Group transact with the Bank, profits and losses are eliminated to the extent of the Bank's interest in the relevant associate.

3. Summary of significant accounting policies (continued)

Measurement and recognition of investments in unconsolidated financial statements

Investments in associates in unconsolidated financial statements are stated at cost less any impairment in the value of individual investments if needed.

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.

Interest income and expense

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Loan origination fees, after approval and drawdown of loans, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan over its life.

Interest charged on deposits is added to the principal where this is foreseen by the agreement. Interest income is suspended when it is considered that recovery of the income is unlikely. Suspended interest is recognized as income when collected.

Fee and commission income and expense

Fees and commissions consist mainly of fees earned on domestic and foreign payment transactions, and fees for loans and other credit instruments issued by the Bank.

Fees for payment transactions are recognised in the period when services are rendered.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

The carrying amount of deferred tax assets is reviewed at each reporting period date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the statement of profit or loss and other comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Bank has the ability and intention to settle on a net basis.

The Bank is subject to various indirect taxes which are included in administrative expenses.

Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash, balances with the Central Bank of Bosnia and Herzegovina (the "CBBH") and current accounts with other banks.

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

3. Summary of significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and 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 or financial liabilities at fair value through statement of profit or loss are recognised immediately in the statement of profit or loss and other comprehensive income.

Financial assets

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), "held-to-maturity investments", 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.

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: "at fair value through profit or loss"(FVTPL), "held-to-maturity investments", "available-for-sale" and "loans and receivables".

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 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.

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

Listed shares and listed redeemable notes held by the Bank that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in the Note 35. Gains and losses arising from changes in fair value are recognized directly in equity in the investments revaluation reserve 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 and other comprehensive income for the period.

Dividends on AFS equity instruments are recognized in profit or loss when the Bank's right to receive payments is established.

The fair value of AFS monetary assets 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.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting period date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation,

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 financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

3. Summary of significant accounting policies (continued)

Financial assets (continued)

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

The carrying amount of the financial asset is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, 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, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognized.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Derecognition of financial assets

The 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.

Financial liabilities

Classification as debt or equity

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

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 either as "financial liabilities at FVTPL" or "other financial liabilities". The Bank creates one category of financial liabilities for which accounting basis is represented as follows.

Other financial liabilities

Other financial liabilities, including due to banks, due to customers and subordinated debt, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

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

Derecognition of financial liabilities

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

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

3. Summary of significant accounting policies (continued)

Tangible and intangible assets

Property and equipment are stated at cost, less accumulated depreciation and any recognized accumulated impairment losses. The purchase cost includes the purchase price and all costs directly related to bringing the asset into operating condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred.

Significant improvements and replacement of assets are capitalised. Properties in the course of construction for supply or administrative purposes are carried at cost, less any recognised impairment loss.

Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Bank's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use.

Depreciation is charged from the moment the fixed asset is ready for its intended use. It is calculated in the basis of the estimated useful life of the asset, using the straight-line method as follows.

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

Estimated depreciation rates were as follows:

	2013	2012
Buildings	33 – 50 years	33 – 50 years
Computers	5 years	5 years
Vehicles	6 years	6 years
Furniture and other office equipment	5 – 10 years	5 – 10 years
Intangible assets	5 years	5 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of profit or loss and other comprehensive income in the period they occur.

Impairment

At each reporting period date, the Bank reviews the carrying amounts of its property and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the greater of net selling price 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.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land or buildings other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

As of 31 December 2013 and 2012, tangible assets of the Bank is not impaired.

3. Summary of significant accounting policies (continued)

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). 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.

Retirement severance payments

The Bank makes provision for retirement severance payments in the amount of either 3 average net salaries of the employee disbursed by the Bank or 3 average salaries of the Federation of Bosnia and Herzegovina as in the most recent published report by the Federal Statistics Bureau, depending on what is more favourable to the employee.

The cost of retirement severance payments are recognized when earned.

Foreign currency translation

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

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

31 December 2013	1 EUR = 1,95583 KM	1 USD = 1,419016 KM
31 December 2012	1 EUR = 1,95583 KM	1 USD = 1,511577 KM

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.

Regulatory requirements

The Bank is subject to the regulations of the Banking Agency of Federation of Bosnia and Herzegovina, which lays down the limits and other restrictions related to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments and forming allowances for credit risk, interest rate risk and currency risk, liquidity risk and foreign currency position.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Bank's accounting policies, which are described in Note 3, the Management is required to make judgments, estimates and make 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 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 the revision and future periods if the revision affects both current and future periods.

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. i:

Useful lives of property and equipment

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

Impairment losses on loans and receivables

As described in Note 3 above, at each reporting period date, the Bank assesses indicators for impairment of loans and receivables and their impact on the estimated future cash flows from the loans and receivables.

Regulatory provisions calculated in accordance with the regulations of the FBA

For the purposes of capital adequacy assessment and recognition of provisions for credit losses from profit in equity and reserve, in accordance with local regulations and the relevant regulations of the FBA, the Bank also calculates provisions in accordance with these regulations. Relevant investments are classified in the appropriate groups for FBA in accordance with these regulations depending on days of delay, the financial position of the debtor and collateral, and are reserved in accordance with the provisions laid down in percentages.

Litigation

Bank's Legal Department makes individual assessment of all court cases and makes provisions on a portfolio basis.

As stated in Note 29, the Bank has reserved KM 1,192 thousand (2012: KM 930,000), which Management estimates as sufficient. It is not practical to estimate the financial impact of changes in the assumptions on which management assesses the need for provisions.

Provisons for employee reimbursement

As described in Note 3 above, in the paragraph named Employee reimbursement the employee reimbursement provisions are calculated based on the independent actuarial report on IAS 19 - Employee Kao što je opisano u Napomeni 3., u paragrafu sa nazivom naknade zaposlenim, rezervisanja za naknade zaposlenih se obračunavaju na osnovu neovisnog aktuarskog mišljenja o primjeni Međunardnog računovodstvenog standarda 19 – Employee benefits.

Fair value of financial instruments

As described in Note 35, point j) the Management use their judgment 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 and receivables, 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.

Notes to financial statements for the year ending 31 December 2013

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

5. Interest income and similar income

Group and Bank	2013	2012
Interest on loans to companies	28.490	28.002
Interest on loans to individuals	27.143	25.427
Interest on bond investment	1.184	808
Interest on placements with other banks	300	603
Interest on funds with the CBBH	19	17
	57.136	**54.857**

6. Interest expense and similar expenses

Group and Bank	2013	2012
Interest on deposits from individuals	7.850	6.655
Interest on deposits from companies	5.477	5.405
Interest on deposits and loans from banks	3.443	5.988
	16.770	**18.048**

7. Fee and commission income

Group and Bank	2013	2012
Fees from payment transactions	13.246	11.672
Fees from conversion transactions	1.942	1.560
Fees from off-balance sheet transactions	1.287	1.053
	16.475	**14.285**

8. Fee and commission expense

Group and Bank	2013	2012
Fees and commissions from payment transactions	1.582	1.487
Other fees from banks	374	306
	1.956	**1.793**

9. Foreign exchange gains, net

Group and Bank	2013	2012
Net gain on foreign exchange transactions	1.630	1.494
Gain from foriegn exchange due to monetary asste and liability revalorization	1	21
	1.631	**1.515**

Notes to financial statements for the year ending 31 December 2013

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

10. Other operating income

	Group 2013	Group 2012	Bank 2013	Bank 2012
Rent income	588	585	588	585
Dividends	9	17	63	31
Income on diposal of tangible and intagible assets	75	61	75	61
Other	518	336	518	336
	1.190	**999**	**1.244**	**1.013**

11. Personnel expenses

The average employee number of the Bank during the year ending December 31, 2013, and year ending December 31, 2012 was 463, 444 respectivly.

Group and Bank	2013	2012
Net salaries	7.883	7.379
Taxes and contributions	6.285	5.996
Other	2.714	2.194
	16.882	**15.569**

12. Administrative expenses

Group and Bank	2013	2012
Services	3.424	2.947
Insurance	2.495	1.948
Rent	1.708	1.550
Telecommunication	1.355	1.219
Maintenance	1.319	1.147
Transport	1.089	1.098
Advertising and entertainment	1.030	983
Other taxes and contributions	885	756
Energy	827	888
Material	605	569
Agency fees	587	546
Supervisory board reimbursement	126	133
Other administrative expenses	458	424
	15.908	**14.208**

13. Impairment losses and provisions

Group and Bank	2013	2012
Loans and allowances to clinets (Note 20)	11.077	12.789
Other assets (Note 23)	359	156
Cach and accounts with other Banks (Note 17)	25	31
Financial assets available to sales (Note 22)	12	14
Placements with other banks (Note 19)	(207)	208
	11.266	**13.198**

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

14. Other provisions

Group and Bank	2013	2012
Provision for legal proceedings (Note 29)	289	133
Provisons for off balanse (Note 29)	1.195	(1.523)
	1.484	**(1.390)**

15. Income tax

Tax liability is based on accounting income taking into the account non-deductible expenses. Tax income rate for the years ended 31 December 2013 and 31 December 2012 was 10%. Total tax recognized in the statement of profit or loss and other comprehensive income may be presented as follows:

Group and Bank	2013	2012
Current income tax	1.015	807
	1.015	**807**

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

	Group 2013	Group 2012	Bank 2013	Bank 2012
Profit before income tax	**10.282**	**7.857**	**9.740**	**7.817**
Income tax expense at prescribed rate of 10%	**1.028**	**786**	**974**	**782**
Non taxable income	(6)	(3)	(6)	(3)
Effects of non-deductible expenses	47	28	47	28
Effects of diviends and profit partcipation for which the taxes have been paid	(54)	(4)	-	-
Current income tax	**1.015**	**807**	**1.015**	**807**
Effective income tax rate	**9,87%**	**10,27%**	**10,42%**	**10,32%**

16. Earnings per share

Basic earnings 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.

	Group 2013	Group 2012	Bank 2013	Bank 2012
Profit attributable to ordinary shareholders	9.267	7.050	8.725	7.010
Weighted average number of regular shares for the year	864.733	864.733	864.733	864.733
Basic earnings per share (KM)	**10,72**	**8,15**	**10,09**	**8,11**

Notes to financial statements for the year ending 31 December 2013

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

17. Cash and cash equivalents

Group and Bank	31 December 2013	31 December 2012
Cash at hand	51.321	37.821
Correspondent accounts with other banks in foreign currencies	31.233	25.036
Account with the CBBH in domestic currency	8.278	2.567
Čheque colectibles	1	2
Total before provisions	**90.833**	**65.426**
Less: Impairment losses	(59)	(34)
	90.774	**65.392**

Provisions are in regard to the cheques and cash on correspondent accounts with other banks in foreign currencies. The movements in the allowance for impairment losses are summarized as follows:

Group and Bank	2013	2012
Balance at 1 January	**34**	**3**
Movements in provisions, net (Note13.)	25	31
Balance at 31 December	**59**	**34**

18. Obligatory reserve with the Central bank of Bosnia and Herzegovina

Group and Bank	31 December 2013	31 December 2012
Obligatory reserve with the CBBH	55.044	53.290
	55.044	**53.290**

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

Interest rate on funds kept up to minimum obligatory reserve amounted from 0.01% to 0.128% (2012: 0.004% to 0.08%), and on excess over minimum obligatory reserves amounted 0.013% to 0.165% (2012; 0.004% to 0.11%). Cash held at the obligatory reserve account with the CBBH is not available for daily operations without specific approval from the CBBH and FBA.

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

19. Placements with other banks

Group and Bank	31 December 2013	31 December 2012
Placements with other banks		
Placements on money market	136	9.884
	136	*9.884*
Loans and allowances to banks		
Intesa Sanpaolo bank d.d. Sarajevo	-	881
	-	*881*
Total before provisions	**136**	**10.765**
Less: Impairment losses	(3)	(210)
	133	**10.555**

At 31 December 2013 the placements in EUR represent noninterest assets, and the average interest rate for 2012 was 0,59%.

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

Group and Bank	2013	2012
Balance at 1 January	**210**	**2**
Movements in provisions, net (Note 13)	(207)	208
Balance at 31 December	**3**	**210**

20. Loans and allowances to customers, net

Group and Bank	31 December 2013	31 December 2012
Lobgterm loans		
Corporate	293.457	264.611
Retail	318.404	300.383
	611.861	*564.994*
Shortterm loans		
Corporate	172.830	183.269
Retail	22.331	22.054
	195.161	*205.323*
Total loans before impairment losses	**807.022**	**770.317**
Less: Impairment losses	(70.862)	(68.027)
	736.160	**702.290**

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

Group and the Bank	2013	2012
Balance at 1 January	**68.027**	**55.329**
Movements in provisions, net (Note 13)	11.077	12.789
Transfer to other assets (Note 23)	(1.637)	-
Write-offs	(6.605)	(91)
Balance at 31 December	**70.862**	**68.027**

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

20. Loans abd alowances to customers, net (continued)

Loans and allowances presented in table above include loan principle increased by interest receivables amounting KM 4,778 thousand (2012: KM 5,692 thousand) and decreased for prepaid loan fees amounting KM 4,502 thousands (2012: KM 3,710 thousand).

Industry gross loan analisys before impairment losses can be presented as follows:

Grupa i Banka	31 December 2013	31 December 2012
Financial services	5.763	4.911
Construction	32.953	25.095
Restaurants and tourism	6.136	7.255
Public administration and defense, obligatory social insurance	780	1.274
Real and rent estates and business activities	26.189	13.082
Education	778	3.584
Energy, gas and water supply	1.695	1.886
Other	261.448	265.933
Manufacture	119.899	116.274
Mining	2.518	2.407
Healthceare and social work	8.128	6.182
Population	340.735	322.434
	807.022	**770.317**

The amounts presented in table above include loan principle increased by interest receivables and decreased for prepaid loan fees as of 31 December 2013, and 31 December 2012.

Total amount of non-performing loans was KM 74,830 thousand and KM 62,537 thousand as at 31 December 2013 and 2012, respectively.

Weighted average interest rate can be presented as follows:

Group and Bank	2013	2012
Corporate	6,58%	6,82%
Individuals	7,78%	8,08%

21. Investment in joint companies

The Bank invested in joint companies in accordance with share method, as follows:

Name of the company	Group 31 December 2013	Group 31 December 2012	Bank 31 December 2013	Bank 31 December 2012
S-Leasing d.o.o Sarajevo	1.118	-	607	-
S-Premium d.o.o Sarajevo	133	102	49	49
Sparkasse Nekretnine d.o.o Sarajevo	50	50	49	49
	1.301	**152**	**705**	**98**

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

21. Investment in joint companies

For all joint companies reporting date is 31 December . The summary of financial information on joint companies is shown below:

	31 December 2013	31 December 2012
Total assets	54.099	1.391
Total liabilities	(51.442)	(1.080)
Net assets	2.657	311
Participation in net assets of joint companies	**1.301**	**152**

The change of joint company investment can be shown as follows:

	Group	Group	Bank	Bank
	Share method		Cost method	
	2013	2012	2013	2012
Balance at 1 January	**152**	**112**	**98**	**98**
Buying of new shares	607	-	607	-
Dividends paid	(54)	(14)	-	-
Share of joint company net result	596	54	-	-
Balance at 31 December	**1.301**	**152**	**705**	**98**

22. Financial assets available-for-sale

Group and Bank	31 December 2013	31 December 2012
Equity securities:	**139**	**259**
Bonds		
Goverment of Federation Bosnia and Herzegovina – treasury	14.856	2.477
Goverment of Federation Bosnia and Herzegovina and Republic of srpska - bonds (B+)	10.910	10.487
Government of Republic Croatia – bonds (Baa3/BBB)	10.515	10.795
Total of securities	**36.281**	**23.759**
Less: Impairment losses	(245)	(233)
	36.175	**23.785**

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

Group and Bank	2013	2012
Balance at 1 January	**233**	**219**
Movements in provisions, net (Note 13)	12	14
Balance at 31 December	**245**	**233**

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

23. Other assets

Group and Bank	31 December 2013	31 December 2012
Acquired tangible assets (collateral)	1.871	193
Authorized exchange office receivables	1.303	668
Fees and commission receivables	886	717
Domestic transactions receivables	628	519
Inventories	82	89
Western union receivables	44	69
VAT receivables	1	124
Other assets	1.533	2.408
Total other assets before impairment losses	**6.348**	**4.787**
Less: Impairment losses	(3.620)	(1.709)
	2.728	**3.078**

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

Group and Bank	2013	2012
Balance at 1 January	**1.709**	**1.558**
Provisions movements, net (Note 13)	359	156
Transfer of loans and allowances receivables (Note 20)	1.637	-
Acquired tangible assets disposal	(50)	-
Writte - offs	(35)	(5)
Balance at 31 December	**3.620**	**1.709**

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

24. Materijalna i nematerijalna imovina

Group and Bank	Land and buildings	Computer equipment	Vehicles	Furniture and equipment	Patents, licences and sofwers	Investment property	Investment in progress	Total
COST								
As at 31 December 2011.	**24.618**	**3.205**	**362**	**8.238**	**4.627**	**1.211**	**345**	**42.606**
Additions	-	-	-	-	-	-	2.766	2.766
Transfer (from) / to	111	124	160	1.276	815	168	(2.654)	-
Writte offs	-	(206)	-	(187)	-	-	-	(393)
As at 31 December 2012.	**24.729**	**3.123**	**522**	**9.327**	**5.442**	**1.379**	**457**	**44.979**
Additions	-	-	-	-	-	-	3.378	3.378
Transfer (from) / to	465	178	254	1.089	557	160	(2.703)	-
Writte offs	-	(8)	(72)	(619)	-	(227)	(6)	(932)
As at 31 December 2013.	**25.194**	**3.293**	**704**	**9.797**	**5.999**	**1.312**	**1.126**	**47.425**
ACCUMULATED DEPRECIATION								
As at 31 December 2011.	**1.221**	**2.503**	**97**	**3.970**	**2.506**	**719**	**-**	**11.016**
Depreciation	491	277	70	958	795	188	-	2.779
Writte offs	-	(205)	-	(184)	-	-	-	(389)
As at 31 December 2012.	**1.712**	**2.575**	**167**	**4.744**	**3.301**	**907**	**-**	**13.406**
Depreciation	497	252	123	1.071	897	203	-	3.043
Writte offs	-	(4)	(61)	(615)	-	(226)	-	(906)
As at 31 December 2013.	**2.209**	**2.823**	**229**	**5.200**	**4.198**	**884**	**-**	**15.543**
NET BOOK VALUE								
As at 31 December 2013.	**22.985**	**470**	**475**	**4.597**	**1.801**	**428**	**1.126**	**31.882**
As at 31 December 2012.	**23.017**	**548**	**355**	**4.583**	**2.141**	**472**	**457**	**31.573**

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

25. Investment property

Group and Bank	Buildings
COST	
As at 31 December 2011.	**7.253**
Additions	3
Transfer from VAT receivables	(819)
As at 31 December 2012.	**6.437**
Additions	3
As at 31 December 2013.	**6.440**
ACCUMULATED DEPRECIATION	
As at 31 December 2011.	**130**
Depreciation	127
As at 31 December 2012.	**257**
Depreciation	129
As at 31 December 2013.	**386**
NET BOOK VALUE	
As at 31 December 2013.	**6.054**
As at 31 December 2012.	**6.180**

Investment property is in regard to business premises (floors) which are renting, and are not used by the Bank. Investment property net book value amounting KM 6,054 thousand (2012: KM 6,180 thousand) is in use since 2010. On the basis of an investment property, in 2013 the Bank achieved a total income from rents in the amount of KM 588,000 (2012 – KM 584,000), while the direct costs for the year amounted to KM 80,000 (2012 – KM 82,000). According to Management Board opinion fair value of investment properties as at 31 December 2013 and 2012 does not significantly differs from the carrying value of the building so during 2013 and 2012 estimation of fair value was not done.

26. Due to other banks

Grupa i Banka	31 December 2013	31 December 2012
Demand deposits		
In KM	586	146
In foreign currencies	310	241
	896	**387**
Term deposits		
In KM	139	139
In foreign currencies	255.207	263.306
	255.346	**263.445**
	256.242	**263.832**

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

27. Due to customers

Group and Bank	31 December 2013	31 December 2012
Demand deposits:		
Corporate:		
In KM	96.850	46.897
In foreign currencies	9.024	8.674
	105.874	*55.571*
Individuals:		
In KM	66.128	57.670
In foreign currencies	34.136	29.940
	100.264	*87.610*
Other government and non-government organisations:		
In KM	3.251	13.059
In foreign currencies	421	1.210
	3.672	*14.269*
Total demand deposits	**209.810**	**157.450**
Term deposits:		
Corporate:		
In KM	63.900	41.446
In foreign currencies	47.929	49.975
	111.829	*91.421*
Individuals:		
In KM	96.263	72.771
In foreign currencies	142.421	141.260
	238.684	*214.031*
Other government and non-government organisations:		
In KM	500	48.494
In foreign currencies	-	5.951
	500	*54.445*
Total term deposits	**351.013**	**359.897**
	560.823	**517.347**

Demand deposits interest rates ranged from 0.00% to 0.10% annually, i.e. from 0.00% to 0.10% annually, and for term depositsa from 0.10% to 4.10% annualy, i.e. from 0.10% to 4.30%, for the year ending 31 December 2013, i.e. 2012, respectivly.

28. Due for loans taken

Group and Bank	31 December 2013	31 December 2012
Europeand Bank for Reconstruction and Development (EBRD) – interest rate 1.89% per year and maturity on 08 January 2017	9.779	2.274
European Investment Bank Evropska (EIB) – interest rate 1.78% per year and maturity 15 October 2018	9.779	-
Foudation for sustainable development (OdRaz) – interest rate 2.67% per year and maturity 1 May 2017	208	267
	19.766	**2.541**

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

29. Provisions

Group and Bank	31 December 2013	31 December 2012
Provisions for offbalance	3.039	1.844
Provisions for employee reimbursement	1.527	1.210
Provisions for legal proceedings	1.192	930
	5.758	**3.984**

Commitments and contingencies

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

Group and Bank	31 December 2013	31 December 2012
Granted but undrawn loans	83.850	59.825
Performance guarantees	26.260	20.444
Payment guarantees	21.119	12.244
Acreditives	1.629	4.526
	132.858	**97.039**

On 31 December 2013, the provision for employee benefits represent unused vacation days and severance and retirement bonuses, and were determined using the projected credit unit. In order to make actuarial estimates, following assumptions were used:

- discount rate - 7%;
- observation period of salary growth - 2013;
- statistical information on the average salary in FBiH in the reporting period;
- statistical information on the average salary in the Bank in the reporting period
- the average monthly number of working days in the 2013 on the basisi of six days week - 21.33%.

Movements in provisions were as follows:

Group and Bank	Offbalance	Legal proceedings	Employee reimbursement	Total
Balance at 1 January 2012.	**3.367**	**852**	**1.153**	**5.372**
Additional provisions recognized, net (Note 14)	(1.523)	133	923	(467)
Utilisation due to payments	-	(55)	(866)	(921)
Balance at 31 December 2012.	**1.844**	**930**	**1.210**	**3.984**
Additional provisions recognized, net (Note 14)	1.195	289	1.158	2.642
Utilisation due to payments	-	(27)	(841)	(868)
Balance at 31 December 2013.	**3.039**	**1.192**	**1.527**	**5.758**

Recognized (release) / additional provisions in Profit and loss sheet for the employee reimbursement are shown as employee cost (Note 11).

30. Other liabilities

Group and Bank	31 December 2013	31 December 2012
Liabilities towards employeis	1.674	1.604
Liabilities towards suppliers	1.182	872
Liabilities for unallocated payments	485	282
Liabilities for taxes	49	28
Liabilities for income tax	30	282
Other liabilities	1.213	1.433
	4.633	**4.501**

31. Share capital

Shareholding structure as at 31 December 2013 and 2012 was as follows:

Group and Bank	31 December 2013			31 December 2012		
	No.of shares	Amount in KM '000	%	No.of shares	Amount in KM '000	%
Steiermarkische Bank und Sparkassen AG, Graz, Austria	839.006	83.901	97,0	839.006	83.901	97,0
Other shareholders	25.727	2.572	3,0	25.727	2.572	3,0
Total paid capital	**864.733**	**86.473**	**100,0**	**864.733**	**86.473**	**100,0**

Share capital is made up of 864,733 ordinary shares at nominal value of KM 100. Issuance premium (agio) represents accumulated positive difference between nominal value and amount received fro issued shares.

32. Related-party transactions

In the normal course of business a number of banking transactions are entered into with related parties. These transactions were carried out on commercial terms and conditions and at market rates.

Transactions with the Owner

Group and Bank	31 December 2013		31 December 2012	
	Receivables	Liabilities	Receivables	Liabilities
Steiermarkische Bank und Sparkassen AG. Graz, Austria	146	254.678	494	263.337
	146	**254.678**	**494**	**263.337**

Group and Bank	2013.		2012.	
	Income	Expense	Income	Expense
Steiermarkische Bank und Sparkassen AG. Graz, Austria	74	3.282	78	5.973
	74	**3.282**	**78**	**5.973**

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

32. Related-party transactions (continued)

Transactions with other related parties

Group i Banka	31 December 2013		31 December 2012	
	Receivables	Liabilities	Receivables	Liabilities
Erste Bank der Oesterreichischen Sparkassen AG Wiena, Austria	13.170	156	12.912	-
Erste and Steiermarkische bank d.d Zagreb, Croatia	1.251	288	472	-
Sparkasse Bank a.d Skoplje, Macedonija	4	-	7.848	-
S Leasing d.o.o Sarajevo, BiH	2	370	-	-
Sparkasse Nekretnine d.o.o Sarajevo, BiH	-	56	-	-
S Premium d.o.o Sarajevo, BiH	-	626	-	-
	14.427	**1.496**	**21.232**	**-**

Group and Bank	2013		2012.	
	Income	Expenses	Income	Expenses
Erste Bank der Oesterreichischen Sparkassen AG Wiena, Austria	14	-	28	-
Erste and Steiermarkische bank d.d Zagreb, Croatia	24	-	-	-
Sparkasse Bank a.d. Skopje, Macedonija	48	-	27	-
S Leasing d.o.o Sarajevo, BiH	120	14	88	172
Sparkasse Nekretnine d.o.o Sarajevo, BiH	4	-	4	-
S Premium d.o.o Sarajevo, BiH	6	-	6	-
S IT Solutions AT Spardat GmBH Wiena, Austria	-	235	-	110
MBU d.o.o Zagreb, Croatia	-	780	-	676
S IT Solutions CZ s.r.o Prague, Čzech Republic	-	6	-	13
S IT Solutions HR d.o.o Bjelovar, Croatia	-	40	-	-
	216	**1.075**	**153**	**971**

Management remuneration

The remuneration of Management Board and other members of key management were as follows:

Group and the Bank	2013	2012
Gross salaries	796	769
Other benefits	148	128
Fees to Supervisory Board members	25	29
	969	**926**

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

33. Commisionary business

The funds managed by the Bank, where the Bank acts as a commisioner on behalf of individulas, trusts and other institutions, are not Banks funds, and therefore are not included in its balance sheet.

It the table below are shown the funds managed by the Bank in and for the name of its clients:

Group and Bank	31 December 2013	31 December 2012
Loans		
Corporate	16.797	17.131
Individuals	3.577	3.701
	20.374	**20.832**
Financing sources		
Employment agency of Federation of Bosnia and Herzegovina	17.694	18.108
Ministry of war military invalids of Zenica –doboj Canton	1.062	1.071
Bosnian-Podrinje Canton Government	804	805
International guarantee agency - IGA	326	326
Zenica- doboj Canton Goverment	201	223
Employment agency of Zenica-doboj Canton	161	172
Lutheran World Federation	73	73
Housing fund of Unsko-sanskog Canton	29	29
Employment agency of Bosnian-Podrinje Canton	21	22
War military invalids organisation Bihać	3	3
	20.374	**20.832**
Liability, net	-	-

The Bank does not bear any risk in regard to this placements, and for its servies charges a fee. Liabilities from commisionery business are invested in loans to companies and individuals on behlaf of third parties.

34. Financial instruments

a) Capital risk management

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

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

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

Bank	31 December 2013	31 December 2012
Debt	836.831	783.720
Equity	113.791	105.283
Debt to capital ratio	**7,35**	**7,44**

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

34. Financial instruments (continued)

a) Capital risk management (continued)

Debt is defined as liabilities to banks and customers presented in detail in Notes 26 and 2, and liabilities for loans taken presented in detail in Note 28, and capital includes total equity of the Bank.

Capital adequacy and the use of net capital are monitored by the Bank's management, employing techniques based on the guidelines developed by FBA for supervisory purposes. The required information is filed with the FBA on a quarterly basis.

FBA requires each bank to:

a) hold the minimum level of the net (regulatory) capital and the lowest level of net capital (regulatory capital) of KM 15 million, and

b) maintain a ratio of net (regulatory) capital to the risk-weighted asset at or above the minimum of 12%.

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

- Tier 1 capital or Core Capital: share capital (net of any book values of the treasury shares), share premium, share premium, retained earnings and reserves created by appropriations of retained earnings; and
- Tier 2 capital or Supplementary Capital: qualifying subordinated loan capital, collective impairment allowances and unrealized gains arising on the fair valuation of equity instruments held as available for sale.

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

As of 31 December 2013 and 2012 the Bank complied with all of the externally imposed capital requirements to which it was subject. As of 31 December 2013 the adequacy of the Bank's capital amounts to 13,6% (2012: 13,9%).

Group and Bank	31 December 2013	31 December 2012
Osnovni kapital banke		
Share capital	86.473	86.473
Fair value reserve	126	343
Retained earnings	17.677	10.667
Intangible assets	2.267	2.164
Total share capital	**102.009**	**95.319**
Supplementary capital		
General provisions – Agency regulations	17.279	16.025
Auited profit for the year	8.725	7.010
Total supplementary capital	**26.004**	**23.035**
Adjustment for shortfall in regulatory reserves	8.822	5.311
Net capital	**119.191**	**113.043**
Risk Weighted Assets (unaudited) – Balance sheet	743.308	712.269
Weighted Operational Risk (unaudited) –Off balance	74.516	52.439
Total weighted risk	**817.824**	**764.708**
Capital adequacy (%)	**13,6**	**13,9**

b) Significant accounting policies

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

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

34. Financial instruments (continued)

c) Categories of financial instruments

	Group 31 December 2013	Group 31 December 2012	Bank 31 December 2013	Bank 31 December 2012
Financial assets				
Cash and cash equivalents (including Obligatory reserve with the CBBH)	145.818	118.682	145.818	118.682
Placements with other banks	133	10.555	133	10.555
Loans and allowances to customers, net	736.160	702.290	736.160	702.290
Financial assets available-for-sale	37.477	23.937	36.880	23.883
Other financial assets	2.542	2.901	2.542	2.901
	922.130	**858.365**	**921.533**	**858.311**
Financial liabilities				
At amortised cost	836.831	783.720	836.831	783.720
Other financial liabilities	4.633	4.501	4.633	4.501
	841.464	**788.221**	**841.464**	**788.221**

d) Financial risk management objectives

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

e) Market risk

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

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

34. Financial instruments (continued)

f) Foreign currency risk management

The Bank undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The carrying amounts of the Bank's monetary assets and monetary liabilities in foreign currencies at the reporting date are as follows:

Bank	KM	EUR	USD	Other currencies	Total
Assets					
Cash and cash equivalents	25.736	51.231	6.836	6.971	90.774
Obligatory reserve with the CBBH	55.044	-	-	-	55.044
Placements with other banks	2	20	111	-	133
Loans and allowances to customers, net	245.136	491.024	-	-	736.160
Financial assets available-for-sale	23.733	13.147	-	-	36.880
Other financial assets	1.872	659	11	-	2.542
	351.523	**556.081**	**6.958**	**6.971**	**921.533**
LIABILITIES					
Due to other banks	-	256.242	-	-	256.242
Due to clients	287.196	259.847	7.019	6.761	560.823
Due for loans taken	208	19.558	-	-	19.766
Other finanial liabilities	1.368	3.207	1	27	4.603
	288.772	**538.854**	**7.020**	**6.788**	**841.434**
Discrepancy as at 31 December 2013	**62.751**	**17.227**	**(62)**	**183**	**80.099**
Total monetary assets	263.723	580.189	7.514	6.885	**858.311**
Total monetary liabilities	200.439	573.802	7.500	6.480	**788.221**
Discrepancy as at 31 December 2012	**63.284**	**6.387**	**14**	**405**	**70.090**

Foreign currency sensitivity analysis

The Bank is mainly exposed to EUR, USD and other curriencies. 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 and other currencies. 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 in currencies different from lender and borrower currencies. A positive number below indicates an increase in profit or other capital where KM strengthens 10% against other relevant currency.. For a 10% weakening of KM against other relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	USD Effect	
Bank	**31 December 2013**	**31 December 2012**
Profit/ (loss)	12	42

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

34. Financial instruments (continued)

g) Interest rate risk management

The Bank is exposed to interest rate risk as the Bank is placing and borrowing funds at fixed interest rates. The Bank's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note (see point i).

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for derivative and non-derivative instruments at the reporting period date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting period date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Bank's net profit for the year ending 31 December 2013 would increase / decrease by KM 1,641 thousand (2012: by KM 1,422 thousand).

h) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Bank's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Board, provided by reports from Risk management department.

The Bank does not have any significant credit risk exposure to any single counterparty or any company of counterparties having similar characteristics. The Bank defines counterparties as having similar characteristics if they are related entities.

Except stated below in table, the carrying amount of financial asset presented in financial statements, decreased for losses based on impairments, represents the Bank's maximum exposure to credit risk without taking account the value of any collateral obtained.

Financial assets

Bank	Total gross carrying amount	Unimpaired assets	Individually impaired assets	Allowance for impairment losses	Total net carrying amount
As at 31 December 2013					
Cash and cash equivalents	90.833	90.833	-	(59)	90.774
Obligatory reserve with the CBBH	55.044	55.044	-	-	55.044
Placements with other banks	136	136	-	(3)	133
Loans to customers, net	807.022	736.766	70.256	(70.862)	736.160
Financial assets available-for-sale	37.125	37.125	-	(245)	36.880
Other financial assets	4.367	3.076	1.291	(1.825)	2.542
	994.527	**922.980**	**71.547**	**(72.994)**	**921.533**
As at 31 December 2012					
Cash and cash equivalents	65.426	65.426	-	(34)	65.392
Obligatory reserve with the CBBH	53.290	53.290	-	-	53.290
Placements with other banks	10.765	10.765	-	(210)	10.555
Loans to customers, net	770.317	699.662	70.655	(68.027)	702.290
Financial assets available-for-sale	24.116	24.116	-	(233)	23.883
Other financial assets	4.610	2.252	2.358	(1.709)	2.901
	928.524	**855.511**	**73.013**	**(70.213)**	**858.311**

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

34. Financial instruments (continued)

Credit exposure and collateral

Bank	Credit risk exposure		
	Net exposure	Unwithdrawn loans / Guarantees	Fair value of collateral
As at 31 December 2013			
Cash and cash equivalents	90.774	-	-
Obligatory reserve with the CBBH	55.044	-	-
Placements with other banks	133	-	-
Loans to customers, net	736.160	129.818	289.054
Financial assets available-for-sale	36.880	-	-
Other financial assets	2.542	-	-
	921.533	**129.818**	**289.054**
As at 31 December 2012			
Cash and cash equivalents	65.392	-	-
Obligatory reserve with the CBBH	53.290	-	-
Placements with other banks	10.555	-	-
Loans to customers, net	702.290	95.195	277.103
Financial assets available-for-sale	23.883	-	-
Other financial assets	2.901	-	-
	858.311	**95.195**	**277.103**

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

34. Financial instruments (continued)

h) Credit risk management (continued)

Credit exposure and collateral

Fair value of the collaterals

Bank	31 December 2013	31 December 2012
Real estate	215.705	176.160
Movable property	4.194	3.355
Deposits	9.677	7.924
Other	59.478	89.664
	289.054	**277.103**

Arrears

Bank	Total gross loan portfolio	Not due	Up to 30 days	31 – 90 days	91 – 180 days	181 – 270 days	over 270 days
31 December 2013							
Corporate	466.287	393.060	20.292	5.212	1.912	2.025	43.786
Individuals	340.735	300.903	21.294	4.653	2.011	1.282	10.592
	807.022	**693.963**	**41.586**	**9.865**	**3.923**	**3.307**	**54.378**
31 December 2012							
Corporate	447.883	356.772	27.345	18.497	3.191	2.464	39.614
Individuals	322.434	277.397	28.719	7.362	1.071	640	7.245
	770.317	**634.169**	**56.064**	**25.859**	**4.262**	**3.104**	**46.859**

i) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board, which has created an adequate framework for the management of liquidity risk to be used for the management of long-, mid- and short-term needs for the management of the Bank's liquidity. The Bank manages this type of risk by maintaining adequate reserves and other sources of financing, by constantly monitoring the projected and actual cash flows and by comparing maturity profiles of financial assets and liabilities.

The following table details the rest of Bank's contractual maturities for financial assets. The table is prepared based on nondiscounted financial assets cash flows, including interest for that assets and interest for that asset that will be earned, except for the assets that it is expected for the cash flow to appear in the future period.

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

34. Financial instruments (continued)

i) Liquidity risk management (continued)

Liquidity and interest risk tables

Maturity for financial assets

Bank	Weighted average effective interest rate	Less than	2 to 3 months	4 months to 1 year	2 to 5 years	Over 5 years	Total
31 December 2013							
Non-interest bearing	2 to 5 years	Over 5 years	Total	600	13	-	35.297
Variable interest rate instruments	5,57%	14.461	12.092	54.932	172.630	44.232	298.347
Fixed interest rate instruments	7,85%	126.854	62.764	190.273	252.605	202.485	834.981
		175.981	**74.874**	**245.805**	**425.248**	**246.717**	**1.168.625**
31 December 2012							
Non-interest bearing	-	6.659	10	285	5	-	6.959
Variable interest rate instruments	5,91%	11.978	11.086	52.242	154.068	50.433	279.807
Fixed interest rate instruments	7,97%	108.416	62.903	192.248	246.975	178.913	789.455
		127.053	**73.999**	**244.775**	**401.048**	**229.346**	**1.076.221**

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

Maturity for financial liabilities

Bank	Weighted average effective interest rate	Less than	2 to 3 months	4 months to 1 year	2 to 5 years	Over 5 years	Total
31 December 2013							
Non-interest bearing	-	164.048	160	2.578	1.596	1.338	169.720
Variable interest rate instruments	1,22%	444	-	-	271.787	10.786	283.017
Fixed interest rate instruments	2,46%	58.045	38.159	134.873	172.693	5.196	408.966
		222.537	**38.319**	**137.451**	**446.076**	**17.320**	**861.703**
31 December 2012							
Non-interest bearing	-	130.144	695	1.499	2.000	168	134.506
Variable interest rate instruments	1,26%	-	-	-	264.356	-	264.356
Fixed interest rate instruments	2,55%	40.787	29.246	146.207	191.730	6.322	414.292
		170.931	**29.941**	**147.706**	**458.086**	**6.490**	**813.154**

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

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

35. Fair value measurement

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

35.1. Fair value of the Company'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. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Group and Bank				
Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	31 December 2013	31 December 2012		
1) Financial assets available for sale (see Note 21)	Listed equity securities in stock exchange in Bosnia and Herzegovina: • BamCard d.d Sarajevo – KM 115 thousand • S Leasing d.o.o Sarajevo - KM 607 thousand • Sparkasse nekretnine d.o.o Sarajevo – KM 49 thousand • S-premium d.o.o Sarajevo – KM 49 thousand	Listed equity securities in stock exchange in Bosnia and Herzegovina: • BamCard d.d Sarajevo – KM 115 thousand • S Leasing d.o.o Sarajevo - KM 120 thousand • Sparkasse nekretnine d.o.o Sarajevo – KM 49 thousand • S-premium d.o.o Sarajevo – KM 49 thousand	Level 1	Quoted bid prices in an active market.
	Listed equity securities on stock exchanges in other countries: • Belgija - 24 hiljade KM	Listed equity securities on stock exchanges in other countries: • Belgium - KM 24 thousand	Level 1	Quoted bid prices in an active market.
	Listed debt securities in stock exchange in other countries: • Croatia – KM 10.515 thousand	Listed debt securities in stock exchange in other countries: • Croatia – KM 10.515 thousand	Level 1	Quoted bid prices in an active market.
	Listed debt securities in stock exchange in Bosnia and Herzegovina: • FBiH Ministry of Finance – KM 21.673 thousand • RS Ministry of Finance – KM 3.220 thousand • Tešanj Municipality– KM 35 thousand • Cazin Municipality – KM 345 thousand • Hadžići Municipality – KM 492 thousand	Listed debt securities in stock exchange in Bosnia and Herzegovina: • FBiH Ministry of Finance – KM 9.739 thousand • RS Ministry of Finance – KM 246 thousand • Tešanj Municipality – KM 69 thousand • Cazin Municipality – KM 389 thousand	Level 1	Quoted bid prices in an active market.

There were no transfers between Level 1 and Level 2 during the period

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

35. Fair value measurement (continued)

35.2. 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 recognised in the financial statements approximate their fair values.

	31 December 2013		31 December 2012	
Grupa i Banka	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and receivables:				
- loans to customers	736.160	735.872	702.290	702.140
Financial liabilities				
Financial liabilities held at amortised cost:				
- due to banks and customers	817.065	816.964	781.179	781.052

Group and Bank	Fair value hierarchy as at 31 December 2013			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and receivables:				
- loans to customers	-	-	735.872	735.872
	-	-	**735.872**	**735.872**
Financial liabilities				
Financial liabilities held at amortised cost:				
- due to banks and customers	-	-	816.964	816.964
	-	-	**816.964**	**816.964**

The fair values of the financial assets and financial liabilities included in the level 2 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.

The calculation of the fair value is determined by discounting future cash flows, using the weighted average interest rate on the state level, published by CBBH separately for corporate and individuals.

36. Approval of the financial statements

These financial statements were approved by the Management Board on 14 April 2014.

Sanel Kusturica, Director

Amir Softić, Executive director

Impressum

Publisher: Sparkase Bank dd
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