UNICREDIT BANK A.D., BANJA LUKA

Financial Statements
Year Ended December 31, 2014 and
Independent Auditors' Report

Translation of the Auditors' Report issued in the Serbian language

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Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

To the Supervisory Board and Shareholders of UniCredit Bank a.d., Banja Luka

We have audited the accompanying financial statements (page 2 to 66) of UniCredit Bank a.d., Banja Luka (hereinafter the "Bank"), which comprise the statement of financial position as of December 31, 2014 and the related statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 UniCredit Bank a.d., Banja Luka as at December 31, 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte doo

Deloitte d.o.o.,
Banja Luka
February 6, 2015

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year Ended December 31, 2014 BAM '000	2013 BAM '000
Interest income	6	57,514	54,624
Interest expenses	7	(13,797)	(11,085)
Net interest income		**43,717**	**43,539**
Fee and commission income	8	13,835	12,549
Fee and commission expenses	9	(1,659)	(1,650)
Net fee and commission income		**12,176**	**10,899**
Dividend and equity interest income	10	7	13
Net foreign exchange gains / losses upon translation of monetary assets and liabilities	11	1,370	1,370
Total operating income		**57,270**	**56,052**
Personnel expenses	12	(13,953)	(13,437)
Depreciation and amortization	22,23	(3,695)	(4,525)
Other expenses	13	(10,970)	(10,897)
Total operating expenses		**(28,618)**	**(28.859)**
Profit before impairment and provisions		**28,652**	**26,962**
Net impairment losses and provisions for credit risk	14	(8,191)	(7,960)
Provisions for risks and charges	15	(619)	(572)
Gains / losses on investments	22	(213)	42
Profit before taxes		**19,629**	**18,472**
Income tax expense	16	(1,927)	(1,655)
Profit for the year		**17,702**	**16,817**
Other comprehensive income, net of income tax			
Items that may subsequently be reclassified to profit and loss			
- Losses on the financial assets available for sale		(252)	(343)
Total comprehensive income for the year		**17,450**	**16,474**
Basic and diluted earnings per share (in BAM)	31	127.68	122.85

The financial statements were approved by the Bank Management as at February 5, 2015.

Signed on behalf of UniCredit Bank a.d., Banja Luka by:

Dalibor Čubela,
CEO

Sandra Vojnović,
CFO

Notes set out on pages 6 to 66 form an integral part of these financial statements

Translation of the Auditors' Report issued in the Serbian language

STATEMENT OF FINANCIAL POSITION

	Note	**December 31, 2014 BAM '000**	**December 31, 2013 BAM '000**
Assets			
Cash and cash equivalents	*17*	69,883	41,412
Obligatory reserve held with the Central Bank	*18*	51,174	40,975
Loans and receivables due from banks	*19*	117,139	97,659
Financial assets available for sale	*21a*	127,854	69,190
Loans and receivables due from customers	*20*	704,956	671,932
Financial assets held to maturity	*21b*	36	105
Property and equipment	*22*	16,391	17,049
Intangible assets	*23*	1,957	3,039
Other assets	*24*	4,244	2,575
Deferred tax assets	*29*	88	54
Total assets		**1,093,722**	**943,990**
Liabilities			
Deposits and borrowings due to banks	*25*	249,758	252,028
Deposits and loans due to customers	*26*	662,529	532,881
Other liabilities	*27*	17,097	12,416
Provisions for liabilities and costs	*28*	2,546	2,088
Income tax payable		28	264
Total liabilities		**931,958**	**799,677**
Equity and reserves			
Share capital	*30*	97,055	97,055
Share premium		373	373
Regulatory reserve for credit losses		3,496	12,007
Fair value reserve		(667)	(415)
Legal reserve		9,706	5,854
Other reserves from profit		8,511	-
Retained earnings		25,588	12,622
Net profit for the year		17,702	16,817
Total equity and reserves		**161,764**	**144,313**
Total liabilities, equity and reserves		**1,093,722**	**943,990**

Notes set out on pages 6 to 66 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Regulatory reserve for credit losses	Fair value reserve	Legal reserve	Other reserves from profit	Retained earnings	Net profit for the year	Total
	BAM ’000	BAM ’000	BAM ’000	BAM ’000	BAM ’000	BAM ’000	BAM ’000	BAM ’000	BAM ’000
Balance as at January 1, 2013	**82,055**	**373**	**9,288**	**(72)**	**5,161**	**-**	**2,195**	**13,840**	**112,840**
Share capital increase	15,000	-	-	-	-	-	-	-	15,000
Profit distribution	-	-	2,719	-	693	-	10,427	(13,840)	(1)
Net profit for the year	-	-	-	-	-	-	-	16,817	16,817
Other comprehensive income				-					
Net losses from changes in fair value of financial assets available for sale	-	-	-	(343)	-	-	-	-	(343)
Total other comprehensive income	-	-	-	(343)	-	-	-	-	(343)
Total comprehensive income	**-**	**-**	**-**	**(343)**	**-**	**-**	**-**	**16,817**	**16,474**
Balance as at 31 December 2013	**97,055**	**373**	**12,007**	**(415)**	**5,854**	**-**	**12,622**	**16,817**	**144,313**
Balance as at January 1, 2014	97,055	373	12,007	(415)	5,854	-	12,622	16,817	144,313
Share capital increase	-	-	-	-	-	-	-	-	-
Profit distribution	-	-	-	-	3,852	-	12,966	(16,817)	1
Transfers among reserves			(8,511)			8,511			
Net profit for the year	-	-	-	-	-	-	-	17,702	17,702
Other comprehensive income									
Net losses from changes in fair value of financial assets available for sale	-	-	-	(252)	-	-	-	-	(252)
Total other comprehensive income	-	-	-	(252)	-	-	-	-	(252)
Total comprehensive income	**-**	**-**	**-**	**(252)**	**-**	**-**	**25,588**	**17,702**	**17,450**
Balance as at December 31, 2014	**97,055**	**373**	**3,496**	**(667)**	**9,706**	**8,511**	**25,588**	**17,702**	**161,764**

Notes set out on pages 6 to 66 form an integral part of these financial statements

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STATEMENT OF CASH FLOWS

	Note	Year Ended December 31, 2014 BAM '000	2013 BAM '000
Cash flows from operating activities			
Profit before taxes		**19,629**	**18,472**
Adjustments:			
- depreciation and amortization	*22,23*	3,695	4,525
- net impairment gains / losses and provisions for credit risks	*14*	8,191	7,960
- net increases / decreases in provisions for liabilities and costs	*15*	619	572
- net foreign exchange gains	*11*	(1,370)	(1,370)
- gains / losses on investments	*22*	213	(42)
Changes in operating assets and liabilities			
Increase / decrease in loans and advances to other banks		(19,480)	38,106
Increase in loans to customers		(40,043)	(70,769)
Increase / decrease in accrued interest and other assets		(1,669)	3,018
Increase in obligatory reserve held with the Central Bank		(10,199)	(4,121)
Decrease in deposits due to banks		(2,270)	(37,371)
Increase / decrease in deposits due to customers		129,648	50,076
Increase / decrease in other liabilities		4,681	(12,128)
Net cash generated by/used in operating activities before taxes		**91,645**	**(3,072)**
Income taxes paid		(2,163)	(2,179)
Net cash generated by/used in operating activities		**89,482**	**(5,251)**
Cash flows from investing activities			
Purchases of property, equipment and intangible assets	*22,23*	(2,416)	(2,117)
Increase in financial assets available for sale		(58,664)	(13,462)
Decrease in financial assets held to maturity		69	65
Share capital increase		-	15,000
Net cash used in investing activities		**(61,011)**	**(514)**
Net increase / (decrease) in cash and cash equivalents		**28,471**	**(5,765)**
Cash and cash equivalents at the beginning of year	*17*	**41,412**	**47,177**
Cash and cash equivalents at the end of year	*17*	**69,883**	**41,412**

Notes set out on pages 6 to 66 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

UniCredit Bank a.d., Banja Luka (the "Bank") is a shareholding company registered in the Republic of Srpska for performance of payment transactions, credit and deposit operations in the country and abroad in accordance with the regulations of the Republic of Srpska.

History of the Bank is related to the beginning of the past century, i.e. to 1911 and establishment of the Monetary Institute which subsequently developed into the Bank for Trade and Crafts. In the next 60 years, numerous transformations and changes of names under which the Bank operated were made: in 1956, District – Communal Bank [Sreska komunalna banka], in 1961, Municipal Bank [Komunalna banka], and in 1966, Credit Bank. By the reform of the banking system in 1971, the Credit Bank was merged by the Commerce Bank Sarajevo as its branch, and in 1976 it obtained a high degree of autonomy and was registered as the Basic Bank. Under the Decision of the Founders Assembly in December 1989 the Bank was spun off from the Commerce Bank Sarajevo system into an independent bank, under the name Banjalučka banka d.d. Banja Luka. From June 1998, it continued its operations as a shareholding company under the name Banjalučka banka a.d. Banja Luka.

In accordance with regulations on privatization of state-owned capital in the Republic of Srpska, in October 2000, shares of state-owned enterprises in the Bank were transferred to the management of the RS Ministry of Finance until the completion of privatization of the state-owned capital.

In early 2002, the Government of the Republic of Srpska sold the shares of the state to the company "Verano Motors" d.o.o., Belgrade. The first Shareholders' Meeting of the private Bank adopted a decision on the change of the name from Banjalučka banka into Nova banjalučka banka a.d., Banjaluka.

Since the end of 2002, the Bank's shares have been quoted on the Stock Exchange. Having purchased the package of shares in the end of 2005, Bank Austria Creditanstalt AG Vienna became the majority owner of the Bank with the equity interest of 83.3%. By further purchases of shares and increase in share capital, Bank Austria increased its equity interest to 98.39 % of the total capital of the Bank.

With the change in the ownership structure after the entry of Bank Austria as the majority shareholder, the Bank became the member of HVB Group, and after the change in the ownership structure of Bank Austria whose majority owner became UniCredit Bank Milan, the Bank became a member of UniCredit Group. In 2008, the name Nova banjalučka banka a.d. Banja Luka was changed, hence since June 1, 2008, the Bank has had the name UniCredit Bank a.d. Banja Luka.

As at December 31, 2014, the Bank consisted of the Head Office in Banja Luka with registered seat at no. 7, Marije Bursać Street, 32 branch offices and 5 agencies (December 31, 2013: 32 branch offices and 7 agencies). As at December 31, 2014, the Bank had 442 employees (2013: 419 employees).

The tax identification number of the Bank is 4400958880009, and its VAT code is 400958880009.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION

2.1. Statement of Compliance

The accompanying financial statements represent annual financial statements of UniCredit Bank a.d., Banja Luka, prepared in accordance with the International Financial Reporting Standards (IFRS).

2.2. Application and Impact of the New and Revised IFRS

Standards and Interpretations Effective in the Current Period

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) have been effective over the current period:

- Amendments to IFRS 10 "Consolidated Financial Statements," IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements" – Investment Entities (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 32 "Financial Instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014);

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)

2.2. Application and Impact of the New and Revised IFRS (Continued)

Standards and Interpretations Effective in the Current Period (Continued)

- Amendments to IAS 36 "Impairment of Assets" – Disclosure of Recoverable Amount for Non-Financial Assets (effective for annual periods beginning on or after January 1, 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 January 1, 2014); and
- IFRIC 21 "Levies" (effective for annual periods beginning on or after 1 January 2014).

Adoption of these standards, revisions and interpretations has not resulted in significant changes in the accounting policies of the Bank.

Standards and Interpretations in Issue not yet in Effect

At the date of authorization of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- IFRS 9 (revised in 2010)"Financial Instruments" (effective for annual periods beginning on or after January 1, 2018);
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after January 1, 2016);
- IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after January 1, 2017);
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IFRS 10 "Consolidated Financial Statements," IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisition of an Interest in a Joint Operation (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure Initiative (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortization (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – Agriculture: Bearer Plants (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after January 1, 2014);
- IAS 27 "Separate Financial Statements" – *Equity Method in Separate Financial Statements* (effective for annual periods beginning on or after January 1, 2016);
- Amendments resulting from Annual Improvements 2010-2012 Cycle issued in December 2013 (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014);
- Amendments resulting from Annual Improvements 2011-2013 Cycle issued in December 2013 (IFRS 1, IFRS 3, IFRS 13 and IAS 40) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014); and
- Amendments resulting from Annual Improvements 2012 – 2014 Cycle (IFRS 5, IFRS 7, IAS 19 and IAS 34), with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after January 1, 2016).

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

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)

2.3. Basis of Preparation and Presentation of the Financial Statements

The accompanying financial statements have been prepared at cost (historical cost) principle except for certain financial instruments measured at fair value as explained in more detail in the accounting policies provided in the following passages.

In preparing the statement of cash flows for the year ended December 31, 2014, the Bank used direct cash flow reporting method.

In the preparation of the accompanying financial statements, the Bank has adhered to the accounting policies described in Note 3 to the financial statements.

2.4. Functional Currency and Presentation Currency

Financial statements are stated in convertible marks (“BAM”), BAM being the Bank’s functional currency. The values are rounded to the nearest thousand (if not otherwise stated).

The Central Bank of Bosnia and Herzegovina (the “Central Bank”) implements the policy on FX rate in line with the principle of the Currency Board, according to which BAM is pegged to EUR at the rate of BAM 1 = EUR 0.51129, which was used for 2014 and 2013.

2.5. Comparative Financial Information

In order to achieve consistency with the current period presentation, the Bank made certain reclassifications of comparative financial information for 2013, as explained hereafter. The aforesaid reclassifications have no impact on the Bank's result or equity.

Statement of Profit and Loss and Other Comprehensive Income

- Fee expenses per electronic banking transactions and fee expenses per foreign payment transactions in the amount of BAM 230 thousand were reclassified from the item of other expenses (Note 13) to the line item of fee and commission expenses (Note 9);
- Cost of consulting services and other insurance costs in the amount of BAM 190 thousand were reclassified from the item of personnel expenses (Note 12) to the line item of other expenses (Note 13); and
- Other expenses (Note 13) were presented differently in terms of structure thereof as compared to the audited financial statements for FY 2013, however the total amount of the other expenses remained unchanged except for the above said amount.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies presented hereinafter have been consistently applied to all the years presented.

3.1. Interest Income and Expenses

Interest income and expenses are recognized in the statement of profit and loss as they accrue for all interest-bearing instruments using the effective interest method, i.e. at the rate that discounts the estimated cash flows to their net present value over the respective contract term.

The effective interest rate is the rate that precisely discounts the estimated future cash disbursement or payment over the expected life of a financial instrument or, as appropriate, a shorter period, to the net carrying value of the financial asset or liability. When calculating the effective interest rate, the Bank estimates cash flows, taking into consideration all contractual terms related to the financial instrument, but not considering future credit losses.

The calculation includes all fees and commissions paid or received, which are a constituent part of the effective interest rate, transaction costs and all other premiums and discounts. Such income and expenses are presented as interest income and interest expenses in the statement of comprehensive income.

Interest income and expenses recognized in profit or loss include:

- Interest on financial assets and financial liabilities that are measured at amortized cost calculated using the effective interest method, and
- Interest on debt securities available for sale calculated using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Fee and Commission Income and Expense

Fee and commission income and expenses mainly comprise fees related to credit card transactions, issue of guarantees and letters of credit, domestic and foreign payment transactions, foreign exchange trading, brokerage services, depository activities and other services and are recognized in the statement of profit and loss and other comprehensive income upon performance of the relevant service.

3.3. Net Foreign Exchange Gains / Losses on Translation of Monetary Assets and Liabilities

Net FX gains and losses arising on translation of monetary assets and liabilities include unrealized and realized FX gains and losses on derivative financial instruments, and gains and losses arising on translation of monetary assets and liabilities.

3.4. Foreign Currencies

Transactions in foreign currencies are translated into BAM at the exchange rate prevailing at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into BAM at the foreign exchange rate effective at that date. Foreign exchange differences arising on translation are recognized in the statement of profit and loss, except in the case of FX gains and losses arising on non-monetary available-for-sale financial assets, which are recognized in equity. Non-monetary assets and liabilities denominated in foreign currencies measured at historical cost are translated into BAM using the exchange rate effective at the date of the transaction and are not retranslated at the reporting date.

3.5. Income Taxes

Income tax is based on taxable profit for the year and comprises current and deferred taxes.

Current Income Tax
Current income tax is the amount calculated using the prescribed tax rate of 10% applied to the tax base determined in the income tax return, which represents the amount of the profit before tax adjusted for the effects of reconciling income and expenses and any adjustments to the tax payable for prior years, in accordance with the tax legislation of the Republic of Srpska.

Deferred Income Taxes
Deferred taxes are calculated using the balance sheet liability method, for all temporary differences arising between the tax base of assets and liabilities and their carrying value for financial reporting purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which realization or settlement of the carrying value of the assets or liabilities is expected, based on the tax rate applicable at the statement of financial position date.

Measurement of deferred tax liabilities and assets reflects the tax effects that would result from the manner in which the Bank expects, at the statement of financial position date, to recover or settle the carrying value of these assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the statement of financial position. Deferred tax assets are recognized only to the extent that it is probable that they could be utilized as tax relief. At each reporting date, the Bank reassesses unrecognized contingent deferred tax assets and tests the carrying value of recognized deferred tax assets for impairment.

3.6. Financial Instruments

Classification
The Bank classifies its financial instruments in the following categories: loans and receivables, available-for-sale (AFS) financial assets, financial assets held to maturity, financial assets and liabilities at fair value through profit or loss (FVTPL), and other financial liabilities. Management determines the classification of financial instruments upon initial recognition and reviews initial classification at each reporting date.

Loans and receivables are non-derivative financial assets with fixed or determinable payment that are not quoted on an active market. Loans and receivables arise when the Bank provides money to borrowers with no intention of trading with the receivables. Loans and receivables include loans approved to and receivables due from banks and customers.

Available-for sale (AFS) financial assets are non-derivative financial assets classified as available for sale or not classified in any other category. Financial assets classified as AFS are intended to be held for an indefinite period of time, but may be sold in response to a need for liquidity or a change in interest rates, foreign exchange rates or equity prices. Assets available for sale include debt and equity securities.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

Classification (Continued)

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

Financial assets held to maturity comprise debt securities that the Bank intends to hold until their maturity.

Other financial liabilities comprise all financial liabilities that are not held for trading or designated at fair value through profit or loss and include current accounts, deposit accounts and borrowings.

Recognition

Loans and receivables and other financial liabilities are recognized when disbursed or received.

Financial assets available for sale, financial assets held to maturity and financial assets and liabilities at fair value through profit or loss are recognized as at the trading date.

Financial assets and liabilities are initially recognized at fair value increased by financial assets and financial liabilities other than classified as at fair value through profit or loss and transaction costs that are directly attributable to the acquisition or issue of the financial instruments.

Measurement

(a) Loans and Receivables

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

(b) Available-for-Sale Financial Assets

AFS financial assets are initially measured at fair value increased by transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequent to initial recognition all AFS financial assets are measured at fair value, except for equity instruments that do not have a quoted market price in an active market, or whose fair value cannot be reliably measured, which are stated at cost, including transaction costs, less impairment, if any.

In compliance with IFRS 13 the Bank performs revaluation of all securities in its portfolio thereby adjusting the balances of securities to their fair value.

Special attention upon revaluation is paid to debt securities portfolio, which comprises a significant portion of the Bank's assets as of December 31, 2014 and revaluation is calculated based on two grounds:

- based on interest risk, i.e. risk of change to the market interest rate (IR-delta) which is more manifest in instruments with fixed yield, and
- based on liquidity risk, i.e. risk of inability to efficiently liquidate securities portfolio at quoted market price and within reasonable time period (liquidity adjustment), which is more manifest in smaller and insufficiently developed markets.

(c) Financial Assets and Financial Liabilities at Fair Value through Profit or Loss

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

(d) Financial Assets Held to Maturity

Financial assets held to maturity are initially recognized at fair value. After initial recognition, financial assets held to maturity are measured at amortized cost using the effective interest method, less any impairment.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

(e) Other Financial Liabilities
Other financial liabilities are initially measured at fair value. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

Recognition of Gains and Losses on Subsequent Measurement of Financial Instruments

Interest accrued using effective interest rate is recognized in profit or loss.

Gains and losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss are recognized in profit or loss. Gains and losses arising from changes in the fair value of available-for-sale monetary assets are recognized directly in other comprehensive income, until cessation of recognition or permanent impairment of these financial assets, when the corresponding amount of the accumulated effect of change in fair market value, previously recognized in other comprehensive income, is transferred to profit or loss. Foreign exchange gains and losses on AFS equity instruments are part of the fair value of these instruments and are recognized in equity. Impairment losses, interest income and amortization of premium or discount using the effective interest method on AFS debt securities are recognized in profit or loss. Dividend income on AFS equity securities is recognized in the statement of comprehensive income when the right to receive payment has been established.

Impairment of Financial Assets

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

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

If there is objective evidence of impairment of loans and receivables on an individual basis, the impairment loss is determined as the difference between the carrying value of the assets and the present value of the expected future cash flows discounted by the original effective interest rate of the financial assets. The carrying value of the assets is decreased by the amount of credit loss provision, and the amount of the loss is recognized in profit or loss. If loans and receivables have a variable interest rate, the discount rate represents the current effective interest rate determined by an agreement at the moment when impairment has occurred.

Financial assets, for which no impairment was recognized on an individual basis, are grouped with other financial assets with similar characteristics, which are then assessed for impairment on a group basis for any impairment that has been incurred but not yet reported (“IBNR”).

If a loan cannot be collected and all legal procedures have been completed and the final amount of the loss is known, the loan is directly written off. If, in the subsequent period, the amount of impairment loss decreases and the decrease can be directly linked to an event that has occurred after the write-off, the amount written-off or the credit loss provision is then reversed and shown as income in the profit or loss. Write-off of irrecoverable receivables is performed based on the relevant decision of the Credit Committee, and in accordance with court decisions, agreements between interested parties and the Bank’s assessments.

In accordance with local regulations, the Bank also calculates credit loss provisions according to the Banking Agency of the Republic of Srpska (“BARS”) regulations. Loans, placements and other financial assets of the Bank are classified into categories prescribed by BARS according to the expected recoverability determined on the basis of the number of days overdue, an assessment of the debtor’s financial position and the quality of the collateral. The assessed amount of specific provisions for potential losses (regulatory reserve for credit losses) is calculated applying percentages prescribed by BARS. General provisions are calculated at the rate of 2% according to those regulations.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

If general and specific credit loss provisions calculated in compliance with BARS regulations are higher than impairment and provisions calculated in compliance with IFRS requirements and initial balance of regulatory reserves, such difference represents shortfall regulatory reserves for credit losses by which net capital is decreased at calculation of capital adequacy ratio. Initial balance of regulatory reserves amounts to BAM 3,496 thousand and it represents the difference between total calculated regulatory reserves and impairment and provisions according to IAS and IFRS methodology in the moment of initial application of those standards in the Republic of Srpska (January 1, 2010).

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

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exist for the available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is removed from other comprehensive income and recognized in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of comprehensive income. However, any additional increase of the fair value of debt instruments available for sale, whose value was previously impaired, is recognized directly in other comprehensive income.

3) Financial Assets Held to Maturity
Impairment losses are recognized as the difference between the carrying value of the financial assets and the present value of expected future cash flows discounted by current market interest rates for similar financial assets. Impairment losses on these instruments, recognized in profit or loss, are not subsequently reversed through profit or loss.

Derecognition

A financial asset is derecognized (in full or in part) when the Bank loses control over the contractual rights over that financial asset which occurs when the rights are realized, surrendered or have expired.

Available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss and financial assets held to maturity are derecognized as at the trading date.

Loans and receivables and other financial liabilities are derecognized at the date that they are transferred by the Bank or when the liability ceases to exist.

The Bank derecognizes financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the contractual terms of a financial liability change, the Bank will cease recognizing such a liability and will instantaneously recognize a new financial liability, with new terms and conditions.

Fair Value Measurement Principles

The fair value of derivatives traded in regulated markets is estimated at the amount of inflow / outflow that the Bank would receive or pay to terminate the contract at the statement of financial position date taking into account current market conditions and the current creditworthiness of the counterparties.

The fair value of government bonds classified as available for sale that are traded on an active market is based on closing bid prices at the reporting date for these securities. If the market for a financial asset is not active, the Bank determines the fair value by using internally adopted valuation techniques.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

Specific Instruments

a) Financial Derivatives
The Bank uses derivative financial instruments to hedge economically its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. The Bank does not hold or issue derivative financial instruments for speculative trading purposes.

Financial derivatives include foreign exchange forward and swap contracts, which are both initially and subsequently recognized at fair value. Market values are obtained by applying various assessment techniques, including discounted cash flow models.

All derivatives are presented as financial assets when their fair value is positive and as financial liabilities when it is negative. Changes in the fair market value of financial derivatives are recorded as gains or losses.

b) Cash and Cash Equivalents
Cash and cash equivalents include: cash, cheques in the process of collection and cash deposited with the Central Bank (in excess of the amount of the obligatory reserve).

c) Obligatory Reserve Held with the Central Bank
The minimum obligatory reserve held with the Central Bank is presented separately and represents the amount of the funds that the Bank is obligated to realize during each decade as the average daily balance on the reserves account, and which is determined based on the prescribed percentages from the average daily balance of the appropriate type of deposits in the previous decade (Note 17).

d) Loans and Advances to Banks
Loans and advances to banks are measured at amortized cost less impairment losses. Funds held on accounts with other banks are also included in the loans and advances to banks.

e) Loans to Customers
Loans to customers are presented net of impairment allowances to reflect the estimated recoverable amounts.

f) Equity Securities
Equity securities are classified as available-for-sale financial assets and are carried at fair value, unless there is a reliable measure of the fair value, in which case they are stated at cost, less any impairment.

g) Debt Securities
Debt securities are classified as available-for-sale financial assets or financial assets held to maturity depending on the purpose for which those debt securities were acquired.

h) Current Accounts and Deposits from Banks and Customers
Current accounts and deposits are classified as other liabilities and are initially measured at fair value less transaction costs and subsequently stated at their amortized cost using the effective interest method.

i) Borrowings
Interest-bearing borrowings are classified as other liabilities and are recognized initially at fair value less transaction costs and subsequently stated at amortized cost using the effective interest method.

j) Financial Guarantees and Loan Commitments
Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable).

Loan commitments are firm commitments to approve loans under pre-specified terms and conditions.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Financial Instruments (Continued)

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting regulations, or for gains and losses arising from a group of similar transactions such as within the Bank's trading activity.

3.7. Property and Equipment

(a) Recognition and Measurement
Property and equipment are tangible assets that are held for use in the supply of services or for other administrative purposes. Property and equipment are presented at historical or assumed purchase cost less accumulated depreciation and impairment losses. The historical cost includes the costs directly related to property acquisition.

Equipment is measured at cost less accumulated depreciation and impairment.

Subsequent Costs
Cost includes the invoiced amount of purchased assets increased by all costs incurred until the moment of placing the new assets into use. Subsequent costs are included in the book value of the asset or recognized as a separate asset, as appropriate, only when it is probable that the Bank will have future economic benefits from this asset and the value of this asset can be reliably measured. All other repair and maintenance costs are charged to the statement of comprehensive income during the period in which they are incurred.

(b) Depreciation
Depreciation is calculated for all assets, except land and assets not yet placed into use, on a straight-line basis in order to write off the acquisition cost over their estimated useful lives.

The residual value of assets and estimated useful life are reviewed at each reporting date.

Profit or loss on the disposal of assets is determined as the difference between the sales proceeds and net book value and is recorded within other operating income or other operating expenses.

Depreciation rates used for property and equipment are set out below:

	2014	**2013**
Buildings	2% - 5%	2% - 5%
Electronic equipment	12.5% - 25%	15.5% - 25%
Office furniture and equipment	12.5% - 20%	12.5% - 20%
Other	12.5% - 25%	12.5% - 25%
Leasehold improvements	20%	16.7% - 20%

3.8. Intangible assets

Intangible assets are measured at cost less accumulated amortization and impairment, if any. Cost includes all costs directly attributable to the acquisition of the assets.

Intangible assets, with the exception of intangible assets in progress, are amortized on a straight-line basis over their estimated useful economic lives. Useful life is reviewed and adjusted, if necessary, at each reporting date.

Amortization rates used for intangible assets are set out below:

	2014	**2013**
Intangible assets – software and licenses	20% - 25%	20% - 25%

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Impairment of Non-Financial Assets

The net carrying values of intangible assets in progress and intangible assets with an indefinite useful life are tested for impairment and their recoverable amounts are estimated whenever there are indications of impairment or at least annually.

The net carrying value of other non-financial assets of the Bank (other than deferred tax assets) are tested for impairment at each statement of financial position date in order to determine whether there are circumstances indicating impairment. If the existence of such indications is established, the recoverable amount is estimated. An impairment loss is recognized in the statement of profit and loss whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of a non-financial asset is the higher of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For assets not generating mostly independent cash flows, their recoverable amount is determined together with that of cash generating assets, with which those assets are associated.

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

3.10. Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made, or as required by law in the case of provisions for unidentified losses on off-balance-sheet credit risk exposures in accordance with regulations.

Provisions for liabilities and charges are maintained at the level that the Bank's management considers sufficient for absorption of losses. The management determines the sufficiency of provisions on the basis of insight into specific items, current economic circumstances, risk characteristics of certain transaction categories, as well as other relevant factors. Provisions are released only for such expenditure in respect of which provisions were recognized at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

3.11. Equity

Share Capital
Share capital comprises ordinary shares and is stated in BAM at nominal value.

Reserves from Profit
Reserves from profit were formed through the distribution of net profit from prior years.

According to the Companies Act, upon allocation of profit according to the annual accounts, shareholding companies in the Republic of Srpska are required to allocate a minimum of 5% of their annual profit to reserves from profit until the amount of such reserves reaches the level of 10% of the shareholding company's share capital. The Law does not define the deadline up to which the shareholding companies are required to form the amount of reserves of at least 10% of the share capital.

Share Premium
Share premium represents the accumulated positive difference between the nominal value of the issued shares and the paid-in amount.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Equity (Continued)

Regulatory Reserve for Credit Losses
As explained in Note 3.6, in the future, regulatory reserve for credit losses will represent the positive difference between the general and special provisions calculated in accordance with BARS regulations and the value impairment and provisions calculated in accordance with the IFRS requirements as at January 1, 2010, i.e. the initial balance as at the date of the first-time adoption of IAS and IFRS in the Republic of Srpska.

Fair Value Reserve
The fair value reserve represents the change in the fair value of AFS financial assets, net of related deferred taxes.

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

Retained Earnings
Retained earnings include retained and unallocated earnings that can be distributed in the ensuing future period.

3.12. Commitments and Contingent Liabilities

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

3.13. Managed Funds

The Bank manages funds for and on behalf of third parties. These amounts do not constitute part of the Bank's assets, and, therefore, they are excluded from the statement of financial position. The Bank receives fee income for providing these services and does not bear any credit risk.

3.14. Segment Reporting

An operating segment represents portion of assets, liabilities and business activities (products and services) subject to risks and benefits different from those in other operating segments. A geographic segment generates products or services within a specific economic environment which are subject to risks and benefits different from those operating in other economic environments.

The Bank has identified three main segments: Retail, Corporate and Investment Banking and Other. Basic information per segment is based on the internal reporting structure of operating segments. Segment results are measured by applying an internal funding price (Note 5).

3.15. Employee Benefits

a) *Employee Salaries*
Gross salary costs and mandatory social security contributions are charged to profit or loss as incurred. For defined pension contribution plans, the Bank pays contributions in the prescribed amounts to the obligatory pension funds managed by state-owned management companies. These payroll contributions are recognized as personnel costs in profit or loss upon payroll calculation.

b) *Jubilee Awards*
The Bank pays out jubilee awards to its employees. The liabilities thereof are estimated using the projected unit credit method. The projected unit credit method takes into consideration each year of service with the Bank, where the sum of all the particular units is the final liability which is measured individually for each unit. Liabilities are measured at present values of estimated future cash flows discounted at an econometrically modelled interest rate, which is more adequate in the existing market conditions than the interest rate on Government long-term debt securities. Jubilee awards are paid out in the amount of one average salary paid by the Bank in the month preceding the payment for the completion of 20 years of service, or two average salaries paid by the Bank for the completion of 30 years of service with the Bank.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15. Employee Benefits (Continued)

c) Retirement Benefits
In accordance with internal regulations on salaries, the Bank pays retirement benefits to employees upon retirement in the amount of two average monthly salaries of the vesting employee. Calculation of long-term provisions for employee retirement benefits is performed annually by a certified actuary using the projected unit credit method. The projected unit credit method takes into consideration each year of employment with the Bank, where the sum of all the particular units is the final liability which is measured individually for each unit. Liabilities are measured at present values of estimated future cash flows discounted at an econometrically modeled interest rate, which is more adequate in the existing market conditions than the interest rate on Government long-term debt securities.

3.16. Dividend Income

Dividend income is recognized in the profit or loss when the Bank's right to receive dividends has been established.

3.17. Earnings per Share

Earnings per share (EPS) are calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

3.18. Leases

Leases where the Bank as a lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. At the reporting date, the Bank had no finance leases. All other leases are classified as operating leases. Payments made under operating leases are recognized in the profit or loss on a straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The Bank makes estimates and assumptions about uncertain events, including estimates and judgments about the future. Such accounting assumptions and estimates are regularly evaluated and based on historical experience and other factors such as: expected course of future events that can be realistically assumed in the existing circumstances, but in spite of this, necessarily represent sources of uncertainty.

The estimation of impairment losses in the Bank's loan portfolio represents the major source of estimate uncertainty. This and other key sources of estimate uncertainty that pose a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

a) Impairment Losses on Loans and Receivables

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

Impairment losses are recognized mainly against the carrying value of loans to corporate and retail customers (Note 20) and as provisions for liabilities and costs arising from off-balance sheet exposure to customers, mainly in the form of guarantees and letters of credit (Note 27).

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

Financial Assets Carried at Amortized Cost

The Bank assesses impairment on an individual basis for all exposures where there is objective evidence of impairment. Assets which are not significant are assessed on a group (portfolio) basis for impairment.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

a) Impairment Losses on Loans and Receivables (Continued)

The Bank estimates impairment losses in cases where it estimates that the observable data indicates the likelihood of a measurable decrease in the estimated future cash flows of the asset or portfolio of assets. Evidence includes irregular repayment or other indications of financial difficulties of borrowers, unfavorable changes in economic conditions in which the borrowers operate, and changes in the value or collectability of collateral instruments when these changes can be linked to the above-mentioned breach of terms.

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

Financial Assets Carried at Amortized Cost

The Bank assesses impairment on an individual basis for all exposures where there is objective evidence of impairment. Assets which are not significant are assessed on a group (portfolio) basis for impairment.

The Bank estimates impairment losses in cases where it estimates that the observable data indicates the likelihood of a measurable decrease in the estimated future cash flows of the asset or portfolio of assets. Evidence includes irregular repayment or other indications of financial difficulties of borrowers, unfavorable changes in economic conditions in which the borrowers operate, and changes in the value or collectability of collateral instruments when these changes can be linked to the above-mentioned breach of terms.

	Note	**December 31, 2014 BAM '000**	**December 31, 2013 BAM '000**
Breakdown of impairment allowances (IFRS)			
Impairment allowance for loans to customers	*20b*	61,657	54,550
Provisions for off-balance sheet contingent liabilities	*27*	1,381	711
		63,038	**55,261**
Impairment allowance for interest and fee receivables	*20a*	3,371	3,481
Impairment allowance for other assets	*24*	520	827
Impairment of available-for-sale financial assets		965	631
Total loans and receivables		**67,894**	**60,200**

In addition to impairment allowance calculated and recognized in accordance with IFRS, the Bank also calculates impairment in accordance with BARS regulations, where the positive difference between the sum of IFRS impairment allowances and the opening balance of regulatory reserves is recognized as shortfall reserve for credit losses as per regulatory requirement and included in the capital adequacy calculation.

The following table summarizes impairment allowances calculated in accordance with BARS regulations:

	December 31, 2014 BAM '000	**December 31, 2013 BAM '000**
Breakdown of impairment allowances (BARS)		
Impairment allowance for loans to customers	76,009	65,922
Provisions for off-balance sheet contingent liabilities	3,162	2,135
	79,171	**68,057**
Impairment allowance for interest and fee receivables	3,451	3,549
Impairment allowance for other assets	670	904
Total loans and receivables	**83,292**	**72,510**

NOTES TO THE FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

a) Impairment Losses on Loans and Receivables (Continued)

Regulatory reserve for credit losses:

	December 31, 2014 BAM '000	December 31, 2013 BAM '000
Impairment allowances under BARS	83,292	72,510
Impairment allowances under IFRS	67,894	60,200
Opening balance of regulatory reserve	3,496	3,496
Shortfall regulatory reserve for capital adequacy calculation	**11,902**	**8,814**

The opening balance of regulatory reserves amounting to BAM 3,496 thousand represents the difference between the total calculated regulatory reserves and impairment allowances and provisions as per IAS and IFRS methodology upon initial adoption of these standards in the Republic of Srpska (January 1, 2010).

The Bank takes into consideration the combined effect of several events when assessing impairment and uses its experience in making judgments in cases where the observable data required to estimate impairment is limited.

At year-end, the gross value of specifically impaired loans and receivables (non-performing loans – NPL) and the rates of impairment loss recognized were as follows:

	December 31, 2014 BAM '000			December 31, 2013 BAM '000		
	Corporate	Retail	Total	Corporate	Retail	Total
Gross exposure	56,090	21,093	**77,183**	54,294	20,453	**74,747**
Impairment	35,795	17,636	**53,431**	30,858	16,071	**46,929**
Impairment rate	63.8%	83.6%	**69.2%**	56.8%	78.6%	**62.8%**

An increase in the impairment rate of 1 percentage point of the gross non-performing exposure presented above as at December 31, 2014, would lead to the recognition of an additional impairment loss of BAM 772 thousand (2013: BAM 748 thousand).

In addition to separately identified losses for NPLs on an individual and portfolio basis, as explained in the paragraph above, the Bank also recognizes impairment losses which are known to exist at the reporting date, but which have not yet been specifically recognized (IBNR, portfolio impairment).

The amount of IBNR as at December 31, 2014 assessed on a portfolio basis amounted to BAM 8,226 thousand (2013: BAM 7,621 thousand) of the relevant on and off-balance sheet exposure. Total IBNR provision amounted to 1.2 % (2013: 1.2%) of net loans to customers.

Taxation

The Bank recognizes tax liabilities in accordance with the tax regulations of the Republic of Srpska and Brčko District. Tax returns are subject to the approval of the tax authorities which are entitled to conduct subsequent inspection of taxpayers' records.

Regulatory Requirements

The Banking Agency of the Republic of Srpska is authorized to perform regulatory inspection of the Bank's operations and to request adjustments to the carrying values of assets and liabilities, in accordance with the relevant regulations.

Litigation

The Bank performs an individual assessment of all court cases and creates provisions according to the assessment. The assessment is performed by a special Commission of three members, two of whom are employees of the Bank's Legal Affairs, and one is from the Workout Department. Proposals for provisions after the assessment are verified by the managers of Legal Affairs and Risk Management, and the decision on creating the provisions is made by the Bank's Management Board.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Litigation (Continued)

There are 29 lawsuits instigated against the Bank with damage claims filed. According to the Decision of the Bank Management Board, at the proposal of the Commission for risk assessment of liabilities for litigations against the Bank, for the suits that the Bank believes could be lost or significant costs may be incurred thereof, provisions were formed in the total amount of BAM 2,291 thousand (2013: BAM 1,796 thousand) , out of which, the amount of BAM 339 thousand (2013: BAM 299 thousand) relates to labor suits, and BAM 1,952 thousand (2013: BAM 1,497 thousand) to other legal suits.(Note 28).

5. SEGMENT REPORTING

Segments recognized for the purposes of segment reporting in accordance with IAS 8 comprise the following:

1. “Retail”: private individuals and small entrepreneurial businesses
2. “Corporate and Investment Banking”: large and medium-sized companies, state and public sector
3. “Other”: capital and reserves, Assets and Liability Management, other centralized services and other assets and liabilities not associated with other segments.

Segmental information is presented in accordance with management reports.

When measuring business results internal funding prices are applied based on specific prices, reflecting currencies and maturities in accordance with the methodology of UniCredit Group (the “Group”)..

The methodology for allocation of revenues and costs to segments is consistent with the previous year.

Statement of Profit and Loss and Other Comprehensive Income by Segment

Year Ended December 31, 2014	**Corporate & Investment Banking BAM ’000**	**Retail BAM ’000**	**Other BAM ’000**	**Total BAM ’000**
Net interest income	15,414	21,239	7,064	43,717
Net fee and commission income	3,084	9,460	(368)	12,176
Dividend and equity income	-	-	7	7
Net foreign gains / losses on translation of monetary assets and liabilities	707	663	-	1,370
Total operating income	**19,205**	**31,362**	**6,703**	**57,270**
Total operating expenses	**(5,358)**	**(23,222)**	**(38)**	**(28,618)**
Profit before impairment and provisions	**13,847**	**8,140**	**6,665**	**28,652**
Net impairment losses / gains and provisions for credit risk	(5,467)	(2,724)	-	(8,191)
Provisions for risks and costs	(545)	(74)	-	(619)
Impairment losses on property and equipment	-	-	(213)	(213)
Profit before tax	**7,835**	**5,342**	**6,452**	**19,629**
Income tax expense	(788)	(513)	(626)	(1,927)
Profit for the year	**7,047**	**4,829**	**5,826**	**17,702**
Other comprehensive income, net of income tax				
Net changes in fair value reserves	-	-	(252)	(252)
Total comprehensive income for the year	**7,047**	**4,829**	**5,574**	**17,450**

NOTES TO THE FINANCIAL STATEMENTS

5. SEGMENT REPORTING (Continued)

Statement of Profit and Loss and Other Comprehensive Income by Segment (Continued)

Year Ended December 31, 2013	Corporate & Investment Banking BAM '000	Retail BAM '000	Other BAM '000	Total BAM '000
Net interest income	13,774	21,319	8,446	43,539
Net fee and commission income	3,059	8,233	(393)	10,899
Dividend and equity income	-	-	13	13
Net foreign gains / losses on translation of monetary assets and liabilities	614	756	-	1,370
Total operating income	**17,447**	**30,308**	**8,066**	**55,821**
Total operating expenses	**(5,373)**	**(23,486)**	**-**	**(28,859)**
Profit before impairment and provisions	**12,074**	**6,822**	**8,066**	**26,962**
Net impairment losses / gains and provisions for credit risk	(7,749)	(211)	-	(7,960)
Provisions for risks and costs	(450)	(97)	(25)	(572)
Impairment gains/ losses on property and equipment	-	-	42	42
Profit before tax	**3,875**	**6,514**	**8,083**	**18,472**
Income tax expense	(347)	(584)	(724)	(1,655)
Profit for the year	**3,528**	**5,930**	**7,359**	**16,817**
Other comprehensive income, net of income tax				
Net changes in fair value reserves	-	-	(343)	(343)
Total comprehensive income for the year	**3,528**	**5,930**	**7,016**	**16,474**

Income and results per segment presented in the tables above (for the years ending December 31, 2014 and 2013) represent income generated from products sold and services rendered to customers within these segments. Inter-segment revenues have been eliminated.

Accounting policies of the operating segments are identical to the Bank's accounting policies described in Note 3. Segment profit represent the profit of each segment with included all costs allocated thereto based on the revenues earned by each separate segment. The aforesaid is the criterion used for reporting to the managers in charge of key decision making for the purpose of allocating adequate resources to the segments and analysis of their results.

The Bank's revenues from its core services are disclosed in detail in Notes 6 and 8 to the financial statements.

5. SEGMENT REPORTING (Continued)

Statement of Financial Position by Segment

As of December 31, 2014	Corporate & Investment Banking BAM '000	Retail BAM '000	Other BAM '000	Total BAM '000
Assets				
Cash and cash equivalents	-	-	69,883	69,883
Obligatory reserve with the Central Bank	-	-	51,174	51,174
Loans and receivables due from banks	-	-	117,139	117,139
Financial assets available for sale	111,518	-	16,336	127,854
Loans and receivables from customers	317,727	387,229		704,956
Financial assets held to maturity	36	-	-	36
Property and equipment			16,391	16,391
Intangible assets	-	-	1,957	1,957
Other assets	-	-	4,244	4,244
Deferred tax assets	-	-	88	88
Total assets	**429,281**	**387,229**	**277,212**	**1,093,722**
Liabilities				
Deposits and loans due to banks	-	-	249,758	249,758
Deposits and loans due to customers	372,133	290,396	-	662,529
Other liabilities	-	-	17,097	17,097
Provisions for liabilities and costs	-	-	2,546	2,546
Current income tax expense	-	-	28	28
Deferred income tax expense	-	-	-	-
Total liabilities	**372,133**	**290,396**	**269,429**	**931,958**
Share capital and reserves	-	-	144,062	144,062
Net profit for the year	7,047	4,829	5,826	17,702
Total equity and reserves	**7,047**	**4,829**	**149,888**	**161,764**
Total liabilities, equity and reserves	**379,180**	**295,225**	**419,317**	**1,093,722**

NOTES TO THE FINANCIAL STATEMENTS

5. SEGMENT REPORTING (Continued)

Statement of Financial Position by Segment (Continued)

As of December 31, 2013	Corporate & Investment Banking BAM '000	Retail BAM '000	Other BAM '000	Total BAM '000
Assets				
Cash and cash equivalents	-	-	41,412	41,412
Obligatory reserve with the Central Bank	-	-	40,975	40,975
Loans and receivables due from banks	-	-	97,659	97,659
Financial assets available for sale	53,868	-	15,322	69,190
Loans and receivables from customers	333,869	338,063	-	671,932
Financial assets held to maturity	105	-	-	105
Property and equipment	-	-	17,049	17,049
Intangible assets	-	-	3,039	3,039
Other assets	-	-	2,575	2,575
Deferred tax assets	-	-	54	54
Total assets	**387,842**	**338,063**	**218,085**	**943,990**
Liabilities				
Deposits and loans due to banks	-	-	252,028	252,028
Deposits and loans due to customers	286,256	246,625	-	532,881
Other liabilities	-	-	12,416	12,416
Provisions for liabilities and costs	-	-	2,088	2,088
Current income tax expense	-	-	264	264
Deferred income tax expense	-	-	-	-
Total liabilities	**286,256**	**246,625**	**266,796**	**799,677**
Share capital and reserves	-	-	127,496	127,496
Net profit for the year	3,528	5,930	7,359	16,817
Total equity and reserves	**3,528**	**5,930**	**134,855**	**144,313**
Total liabilities, equity and equity	**289,784**	**252,555**	**401,651**	**943,990**

NOTES TO THE FINANCIAL STATEMENTS

6. INTEREST INCOME

a) Breakdown by source:

	Year Ended December 31, 2014 BAM '000	2013 BAM '000
Retail customers	27,400	26,884
Corporate customers and entrepreneurs	13,157	14,572
Banks and financial institutions	105	52
Public sector	16,852	13,116
	57,514	**54,624**

b) Breakdown by product/banking operation

	Year Ended December 31, 2014 BAM '000	2013 BAM '000
Loans to customers	52,052	50,288
Loans and advances to banks	51	32
Obligatory reserve with the Central Bank	54	20
Debt securities	5,357	4,284
	57,514	**54,624**

7. INTEREST EXPENSES

a) Breakdown by recipient:

	Year Ended December 31, 2014 BAM '000	2013 BAM '000
Retail customers	3,991	3,490
Corporate customers and entrepreneurs	3,394	2,517
Banks and other financial institutions	2,331	2,501
Public sector	1,481	1,019
Other organizations	2,600	1,558
	13,797	**11,085**

b) Breakdown by product/banking operation

	Year Ended December 31, 2014 BAM '000	2013 BAM '000
Current accounts and deposits - retail	3,991	3.490
Current accounts and deposits - corporate	3,569	2.178
Current accounts and deposits - banks	1,849	2.016
Borrowings	1,788	1.843
Other	2,600	1.558
	13,797	**11,085**

NOTES TO THE FINANCIAL STATEMENTS

8. FEE AND COMMISSION INCOME

	Year Ended December 31,	
	2014	2013
	BAM '000	BAM '000
Domestic payment transactions	5,225	4.775
Foreign payment transactions	1,704	1.444
Payment of foreign pensions and remittances of individuals	1,625	1.493
Issuance of guarantees and other sureties	1,246	1.084
Card operations	1,183	1.035
Loan origination fees	1,053	432
Foreign exchange spot trading gains and cash operations	593	777
Other	1,206	1.509
	13.835	**12,549**

9. FEE AND COMMISSION EXPENSES

	Year Ended December 31,	
	2014	2013
	BAM '000	BAM '000
Domestic payment transactions	394	192
Foreign payment transactions	129	71
Guarantees and letters of credit received	17	17
Card operations	631	546
Loan fees payable	26	44
Cash operations	401	498
Other	61	282
	1,659	**1,650**

10. DIVIDEND AND EQUITY INTEREST INCOME

	Year Ended December 31,	
	2014	2013
	BAM '000	BAM '000
Dividend income	7	13
	7	**13**

11. NET FOREIGN EXCHANGE GAINS / LOSSES UPON TRANSLATION OF MONETARY ASSETS AND LIABILITIES

	Year Ended December 31,	
	2014	2013
	BAM '000	BAM '000
Foreign exchange gains	85,597	103,354
Foreign exchange losses	(84,227)	(101,984)
	1,370	**1,370**

NOTES TO THE FINANCIAL STATEMENTS

12. PERSONNEL EXPENSES

	Year Ended December 31, 2014 BAM '000	2013 BAM '000
Fixed payments – gross salaries	11,789	11,296
Variable payments - bonuses	1,235	1,000
Other personnel costs	530	479
Severance pays and retirement benefits	312	592
Other costs	87	70
Total personnel expenses	**13,953**	**13,437**

Personnel expenses include contributions for pension and disability insurance paid in 2014 in the amount of BAM 2,520 thousand (2013: BAM 2,361 thousand).

13. OTHER EXPENSES

	Year Ended December 31, 2014 BAM '000	2013 BAM '000
Expenses of:		
IT and telecommunications	2,743	2,976
Sundry operational	2,308	2,082
Real estate	1,816	1,727
Consulting and professional services	1,164	1,132
Security and cash management	1,211	1,200
Advertising marketing & relations	610	695
Back office	456	428
Consultant services	349	340
Indirect taxes and contributions	293	303
Loan approval and monitoring	20	14
	10,970	**10,897**

14. NET IMPAIRMENT LOSSES AND PROVISIONS FOR CREDIT RISK

	Year Ended December 31, 2014 BAM '000	2013 BAM '000
Loans and receivables due from customers (Note 20)	7,521	8,208
Off-balance sheet items (Note 27)	670	(248)
	8,191	**7,960**

15. PROVISIONS FOR RISKS AND CHARGES

	Year Ended December 31, 2014 BAM '000	2013 BAM '000
Provisions for litigations	619	572
	619	**572**

NOTES TO THE FINANCIAL STATEMENTS

16. INCOME TAXES

Income tax charged to the profit and loss comprises current and deferred taxes.

a) Income tax expense recognized within profit and loss

	Year Ended December 31, 2014 BAM ’000	2013 BAM ’000
Current income tax expense	1,927	1,899
Deferred tax expense (Note 29)	-	(244)
Total	**1,927**	**1,655**

b) Reconciliation of income tax expense

	Year Ended December 31, 2014 BAM ’000	2013 BAM ’000
Profit before tax	19,629	18,472
Income tax at the rate of 10%	1,963	1,847
Income not subject to taxation	(570)	(455)
Impairment losses on loans and other assets and other expenses not deductible for tax purposes	919	643
Incremental effect of impairment losses on loans and other assets deductible for tax purposes (up to 20% of the adjusted tax base)	(385)	(380)
Income tax expense	**1,927**	**1,655**
Average effective income tax rate	**9.82%**	**8.96%**

Tax regulations stipulate that for the purpose of calculation of the tax base, a maximum of 20% of the adjusted tax base (result for the period), which represents the difference between adjusted income and expenses before impairment of loans and other assets, may be taken as a taxable deductible expense in respect of charges for the impairment of loans and other assets.

Tax liabilities are recognized in accordance with the tax return prepared by the Bank. However, the Bank is subject to subsequent inspection by the tax authorities over a period of five years following the year for which the tax return was issued. The Bank's Management Board is not aware of any circumstances which may give rise to a potential material liability in this respect.

17. CASH AND CASH EQUIVALENTS

	December 31, 2014 BAM ’000	December 31, 2013 BAM ’000
Cash in domestic currency	9,308	10,724
Funds with the Central Bank – gyro account	53,169	22,724
Cash in foreign currency	7,406	7,964
	69,883	**41,412**

NOTES TO THE FINANCIAL STATEMENTS

18. OBLIGATORY RESERVE WITH THE CENTRAL BANK

	December 31, 2014 BAM '000	December 31, 2013 BAM '000
Obligatory reserve with the Central Bank in domestic currency	**51,174**	**40,975**

The Central Bank of Bosnia and Herzegovina (the "Central Bank") has prescribed a method for calculating and maintaining obligatory reserves, as well as the amount and manner of payment of fees for the amount of obligatory reserve and on the amount of funds in excess of the obligatory reserve held on the account with the Central Bank.

The basis for the calculation of the obligatory reserve is the average amount of deposits and borrowed funds in BAM and foreign currencies (denominated in BAM, at the exchange rate of the Central Bank valid over the calculation period).

The basis for calculation of obligatory reserve excludes:
- borrowed funds from non-residents,
- deposits and loans from governments and entities (residents) intended for development projects.

The Bank is obligated to hold at least 10% of deposits and borrowed funds with contractually defined maturities of up to a year and 7% of the deposits and borrowed funds with contractually defined maturities of over a year, with the Central Bank.

The Central Bank calculates interest on reserves as follows

– for the amount of obligatory reserves: 70% of the rate which is determined based on the weighted average interest rates earned by the Central Bank in the same period on funds invested up to one month (in 2014 this rate ranged from 0.00% to 0.147%);

– for the amount of funds in excess of the obligatory reserves requirement: 90% of the rate which is determined based weighted average interest rates earned by the Central Bank in the same period on funds invested up to one month (in 2014 this rate ranged from 0.00% to 0.189%).

19. LOANS AND RECEIVABLES DUE FROM BANKS

	December 31, 2014 BAM '000	December 31, 2013 BAM '000
- foreign banks	113,504	97,657
- domestic banks	3,635	2
	117,139	**97,659**

Loans to and receivables from banks include the amount of BAM 81,666 thousand (2013: BAM 55,451 thousand) of loans to and receivables from related banks.

NOTES TO THE FINANCIAL STATEMENTS

20. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

a) Breakdown by product

	December 31, 2014 BAM '000	December 31, 2013 BAM '000
Corporate		
- in BAM	173,385	184,167
- in foreign currencies	121,131	122,332
- with foreign currency clause	106,281	104,931
Total gross	**400,797**	**411,430**
Impairment of loan principal amounts	(41,765)	(35,915)
	359,032	**375,515**
Retail		
- in BAM	132,004	77,834
- in foreign currencies	83	94
- with foreign currency clause	234,513	238,762
Total gross	**366,600**	**316,690**
Impairment of loan principal amounts	(19,892)	(18,635)
	346,708	**298,055**
Net loans	**705,740**	**673,570**
Interest receivables matured	4,714	4,790
Impairment of interest receivables	(3,371)	(3,482)
Collected fee not included into income	(2,127)	(2,946)
Loans and receivables due from customers	**704,956**	**671,932**

b) Movements on impairment allowance of loans

	Loans - corporate BAM '000	Loans - retail BAM '000	Total loans BAM '000
Balance as at January 1, 2013	**25,559**	**22,095**	**47,654**
Net loss recognized in the profit or loss (Note 14)	11,672	(3,459)	**8,213**
Write-offs	(1,316)	(1)	**(1,317)**
Balance as at December 31, 2013	**35,915**	**18,635**	**54,550**
Net loss recognized in the profit or loss (Note 14)	6,208	1,313	**7,521**
Write-offs	(358)	(56)	**(414)**
Balance as at December 31, 2014	**41,765**	**19,892**	**61,657**

c) Geographic concentration of credit risk

Geographic credit risk concentration relates entirely to companies, individuals and other entities located in Bosnia and Herzegovina.

NOTES TO THE FINANCIAL STATEMENTS

20. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

d)Concentration of credit risk by industry

Breakdown of the Bank’s loan portfolio as at December 31, 2014 per industry is provided in the table below:

	December 31, 2014 BAM ’000	December 31, 2013 BAM ’000
Loans to corporate customers		
Mining and energy	4,174	3,414
Agriculture	17,677	16,894
Construction industry	27,445	26,861
Industry	67,105	50,169
Trade	86,756	128,511
Services	3,685	3,014
Transport	13,529	11,702
Finance	2,221	1,142
Public Sector (central institutions)	117,632	111,500
Local self-government	54,694	53,600
Non-profit institutions	5,879	4,623
	400,797	**411,430**
Retail loans	366,600	316,690
Total gross loans	**767,397**	**728,120**
Impairment allowance	(61,657)	(54,550)
Total net loans	**705,740**	**673,570**

The structure of the loan portfolio is regularly monitored by the Risk Management Department in order to recognize potential events that could have a significant impact on the loan portfolio (usual risk factors) and, if needed, mitigate the Bank’s exposure to certain industry sectors.

NOTES TO THE FINANCIAL STATEMENTS

21. FINANCIAL ASSETS

21. a) Financial assets available for sale

	December 31, 2014 BAM '000	December 31, 2013 BAM '000
Equity securities, quoted		
Dunav osiguranje a.d. Banja Luka	13	15
Krajina Osiguranje d.d. Banja Luka	13	13
Debt securities, quoted		
Bonds of the Municipality of Šamac	9	11
RS bonds issued by public offer	110,664	53,348
RS for verified frozen FX savings	2,656	3,676
RS Ministry of Finance Treasury Bills	14,153	11,781
Total quoted securities	**127,508**	**68,844**
Equity securities, unquoted		
Banja Luka Stock Exchange a.d., Banja Luka	237	237
Central Registry of Securities	101	101
SWIFT	8	8
Total unquoted securities	**346**	**346**
Total financial assets available for sale	**127,854**	**69,190**

Breakdown of financial assets available for sale according to fair value levels:

December 31, 2014	Level 1 BAM 000	Level 2 BAM 000	Level 3 BAM 000	Total BAM 000
Bonds of the Municipality of Šamac	-	9	-	9
RS bonds issued by public offer	-	110,664	-	110,664
RS for verified old FX savings	-	2,656	-	2,656
RS Ministry of Finance Treasury Bills	-	14,153	-	14,153
Total	**-**	**127,482**	**-**	**127,482**
December 31, 2013				
Bonds of the Municipality of Šamac	-	11	-	**11**
RS bonds issued by public offer	-	53,348	-	53,348
RS for verified frozen FX savings	-	3,676	-	3,676
RS Ministry of Finance Treasury Bills	-	11,781	-	11,781
Total	**-**	**68,816**	**-**	**68,816**

External rating of debt securities

To the external rating of debt securities, the external credit rating of the state of Bosnia and Herzegovina was applied, which according to the Agency for Credit Rating Standard & Poor's was "B / stable", and according to Moody's Investors Service it was "B 3 / stable ."

NOTES TO THE FINANCIAL STATEMENTS

21. FINANCIAL ASSETS (Continued)

21. b) Financial assets held to maturity

	December 31, 2014 BAM '000	December 31, 2013 BAM '000
Bonds of Atlantik doo Banja Luka, quoted	36	105
Total financial assets held to maturity	**36**	**105**

22. PROPERTY AND EQUIPMENT

	Land and buildings BAM '000	Equipment and other assets BAM '000	Leasehold improvements BAM '000	Investment in progress BAM '000	Total property and equipment BAM '000
Cost					
Balance as at January 1, 2013	26,448	17,135	1,640	430	45,653
Additions	-	-	-	1,028	1,028
Transfers	96	912	117	(1,125)	-
Disposals and write-offs	-	(325)	-	-	(325)
Balance as at December 31, 2013	**26,544**	**17,722**	**1,757**	**333**	**46,356**
Balance as at January 1, 2014	26,544	17,722	1,757	333	46,356
Additions	-	-	-	1,401	1,401
Transfers	335	661	28	(1,024)	-
Disposals and write-offs	(914)	(729)	-	-	(1,643)
Balance as at December 31, 2014	**25,965**	**17,654**	**1,785**	**710**	**46,114**
Accumulated depreciation					
Balance as at January 1, 2013	11,688	14,509	1,617	-	27,814
Charge for the year	499	1,308	11	-	1,818
Impairment of assets	-	-	-	-	-
Disposals and write-offs	-	(325)	-	-	(325)
Balance as at December 31, 2013	**12,187**	**15,492**	**1,628**	**-**	**29,307**
Balance as at January 1, 2014	12,187	15,492	1,628	-	29,307
Charge for the year	596	971	31	-	1,598
Disposals and write-offs	(469)	(713)	-	-	(1,182)
Balance as at December 31, 2014	**12,314**	**15,750**	**1,659**	**-**	**29,723**
Net book value:					
Balance as at December 31, 2013	**14,357**	**2,230**	**129**	**333**	**17,049**
Balance as at December 31, 2014	**13,651**	**1,904**	**126**	**710**	**16,391**

Investments in progress as of December 31, 2014 in the amount of BAM 710 thousand (2013: BAM 333 thousand) relate to the equipment not yet placed into use.

During 2014 there were no mortgage or pledge liens instituted over the Bank's property and equipment.

The Bank tested property for impairment as of 31 December 2014 and impaired one of its properties in the total amount of BAM 19 thousand.

NOTES TO THE FINANCIAL STATEMENTS

23. INTANGIBLE ASSETS

	Software BAM '000	Other BAM '000	Investments in progress BAM '000	Total BAM '000
Cost				
Balance as at January 1, 2013	13,794	3,932	784	18,510
Additions	-	-	1,089	1,089
Transfers	281	542	(823)	-
Sale and write-offs	-	(1)	-	(1)
Balance as at December 31, 2013	**14,075**	**4,473**	**1,050**	**19,598**
Balance as at January 1, 2014	14,075	4,473	1,050	19,598
Additions	-	-	1,015	1,015
Transfers	1,293	295	(1,588)	-
Sale and write-offs	(1)	1	-	-
Balance as at December 31, 2014	**15,367**	**4,769**	**477**	**20,613**
Accumulated amortization				
Balance as at January 1, 2013	10,198	3,654	-	13,852
Charge for the year	2,249	458	-	2,707
Write-offs	-	-	-	-
Balance as at December 31, 2013	**12,447**	**4,112**	**-**	**16,559**
Balance as at January 1, 2014	12,447	4,112	-	16,559
Charge for the year	1,843	254		2,097
Write-offs	-	-	-	-
Balance as at December 31, 2014				
Net book value:				
Balance as at December 31, 2013	**1,628**	**361**	**1,050**	**3,039**
Balance as at December 31, 2014	**1,077**	**403**	**477**	**1,957**

Investments in progress as of December 31, 2014 in the amount of BAM 477 thousand (2013: BAM 1,050 thousand) relate to software and other intangible assets not yet placed into use.

As of December 31, 2014, the Bank had no internally generated intangible assets.

24. OTHER ASSETS

	December 31, 2014 BAM '000	December 31, 2013 BAM '000
Accrued interest not matured	1,512	552
Receivables for fees in local currency	198	153
Receivables for salaries of employees from the Group	565	636
Receivables for salaries of employees from RS Health Insurance Fund	432	278
Receivables from card operations	1,150	1,264
Receivables based on cheque payments	125	268
Other receivables	782	251
Impairment allowance	(520)	(827)
Total other assets	**4,244**	**2,575**

NOTES TO THE FINANCIAL STATEMENTS

24. OTHER ASSETS (Continued)

Movements on impairment allowance for other assets:

	Total BAM '000
Balance as at January 1, 2013	**843**
Net gains / losses recognized in profit or loss (Note 14)	(5)
Write-offs and transfers	(11)
Balance as at December 31, 2013	**827**
Net gains / losses recognized in P&L (Note 14)	-
Write-offs and transfers	(307)
Balance as at December 31, 2014	**520**

25. DEPOSITS AND LOANS DUE TO BANKS

	December 31, 2014 BAM '000	December 31, 2013 BAM '000
Demand deposits		
- in BAM	133	15
- in foreign currencies	-	1
	133	**16**
Term deposits		
- in BAM	38,600	23,000
- in foreign currencies	172,895	185,022
	211,495	**208,022**
Total deposits	**211,628**	**208,038**
Loans obtained		
- Fund for Italian Participation in the Stabilization, Reconstruction and Development of the Balkans - "MCI Fund"	800	691
- European Investment Bank	37,330	43,299
Total loans	**38,130**	**43,990**
Total deposits and loans due to banks	**249,758**	**252,028**

Deposits and loans due to banks include the amount of BAM 211,598 thousand due to related parties (2013: BAM 208,023 thousand).

NOTES TO THE FINANCIAL STATEMENTS

26. DEPOSITS AND LOANS DUE TO CUSTOMERS

	December 31, 2014 BAM '000	December 31, 2013 BAM '000
Corporate customers and entrepreneurs		
Demand deposits		
- in BAM	116,869	115,867
- in foreign currencies	64,163	50,063
	181,032	**165,930**
Term deposits		
- in BAM	21,960	12,888
- with foreign currency clause	102,973	50,307
- in foreign currencies	26,162	10,315
	151,095	**73,510**
Total corporate	**332,127**	**239,440**
Retail		
Demand deposits		
- in BAM	88,397	75,584
- in foreign currencies	55,058	46,985
	143,455	**122,569**
Term deposits		
- in BAM	22,527	16,935
- with foreign currency clause	4	-
- in foreign currencies	87,522	77,026
	110,053	**93,961**
Total retail	**253,508**	**216,530**
Total deposits	**585,635**	**455,970**
Loans from customers		
- IRB RS Housing Fund of The Republic of Srpska	31,096	30,571
- IRB RS Fund for the Development of the Eastern Part of RS	8,298	9,663
- IRB RS Development and Employment Fund	12,092	15,485
- IRB RS World Bank Funds	7,356	1,634
- Green for Growth Fund (GGF) Amsterdam	18,052	19,558
Total loans from customers	**76,894**	**76,911**
Total deposits and loans from customers	**662,529**	**532,881**

Deposits and loans from customers include BAM 560 thousand due to related parties (2013: BAM 321 thousand).

NOTES TO THE FINANCIAL STATEMENTS

27. OTHER LIABILITIES

	December 31, 2014 BAM '000	December 31, 2013 BAM '000
Accrued interest, not matured	5,471	3,840
Liabilities to employees	1,628	1,455
Advances received for foreclosure of assets - NPL	3,390	7
Liabilities to suppliers	1,172	1,369
Provisions for off-balance-sheet contingent liabilities	1,381	711
Provisions for jubilee awards	210	170
Liabilities for realization of payment orders in the country	778	197
Liabilities for realization of payment orders abroad	0	752
Liabilities based on brokerage operations	118	138
Liabilities based on derivative transactions	0	945
Liabilities based on non-nominated deposits	916	915
Accruals and deferred income	574	999
Other liabilities	1,459	918
	17,097	**12,416**

Movements on provisions were as follows:

	Off-balance-sheet contingent liabilities BAM '000	Jubilee awards BAM '000	Total BAM '000
Balance as at January 1, 2013	**959**	**198**	**1,157**
Net gain / loss recognized in profit or loss	(248)		(248)
Provisions released during the period and transfers	-	(28)	(28)
Balance as at December 31, 2013	**711**	**170**	**881**
Net gain / loss recognized in profit or loss	670	40	710
Provisions released during the period and transfers	-	-	-
Balance as at December 31, 2014	**1,381**	**210**	**1,591**

Gains / losses arising from charges / reversals of provisions for off-balance-sheet exposures are recognized as net impairment losses and provisions for credit risks (Note 14) while gains/losses for jubilee awards are included within personnel expenses (Note 12) within the statement of comprehensive income.

28. PROVISIONS FOR LIABILITIES AND COSTS

	December 31, 2014 BAM '000	December 31, 2013 BAM '000
Provisions for retirement benefits	255	292
Provisions for litigations	2,291	1,796
	2,546	**2,088**

NOTES TO THE FINANCIAL STATEMENTS

28. PROVISIONS FOR LIABILITIES AND COSTS (Continued)

Movements on provisions were as follows:

	Litigations	Retirement benefits	Total
	BAM '000	**BAM '000**	**BAM '000**
Balance as at January 1, 2013	**1,239**	**234**	**1,473**
Net gain / loss recognized in profit or loss (Note 15)	572	58	630
Provisions released during the period and transfers	(15)	-	(15)
Balance as at December 31, 2013	**1,796**	**292**	**2,088**
Net gain / loss recognized in profit or loss (Note 15)	619	-	619
Provisions released during the period and transfers	(124)	(37)	(161)
Balance as at December 31, 2014	**2,291**	**255**	**2,546**

29. DEFERRED TAX ASSETS AND LIABILITIES

Net deferred tax assets

Deferred taxes are calculated for temporary differences according to the balance sheet liability method using the legally prescribed income tax rate of 10% (2013: 10%).

	December 31, 2014 BAM '000	December 31, 2013 BAM '000
Deferred tax assets		
Fair value reserve	88	54
Net deferred tax assets	**88**	**54**

Movements on deferred taxes were as follows:

	Deferred tax assets BAM '000	Deferred tax liabilities BAM '000	Net deferred tax assets BAM '000
Balance as at January 1, 2013	**19**	**(243)**	**(224)**
Decrease in deferred tax liabilities	-	243	243
Changes in fair value of financial assets available for sale recognized in equity and reserves	35	-	35
Balance as at December 31, 2013	**54**	**-**	**54**
Balance as at January 1, 2014	**54**	**-**	**54**
Decrease in deferred tax liabilities	-	-	-
Changes in fair value of financial assets available for sale recognized in equity and reserves	34	-	34
Balance as at December 31, 2014	**88**	**-**	**88**

NOTES TO THE FINANCIAL STATEMENTS

30. SHARE CAPITAL

	Ordinary shares BAM '000
Balance as at January 1, 2013	82,055
Increase in share capital through the 9th issue of shares	15,000
Balance as at December 31, 2013	**97,055**
Balance as at December 31, 2014	**97,055**
Nominal value (BAM)	700
Number of shares	138,650

As at December 31, 2014 the shareholders of the Bank comprised a single major and 69 minor shareholders; both domestic and foreign legal entities and individuals with the following equity interests

	% of equity interest
UniCredit Bank Austria AG, Vienna	**98.39%**
Other shareholders	1.61%
	100.00%

As at December 31, 2014, members of Supervisory Board, Audit Committee and Management Board were not in possession of any shares of the Bank.

All the Bank's shares were quoted on Banjaluka Stock Exchange. In 2014, the price on the day of the last trade at Banjaluka Stock Exchange (September 17, 2014) amounted to BAM 750 (December 31, 2013: BAM 515).

31. EARNINGS PER SHARE

	2014	2013
Total number of shares	138,650	138,650
Weighted average number of shares outstanding	138,650	136,889
Net profit in BAM '000	17,702	16,817
Basic and diluted earnings per share in BAM	127.68	122.85

NOTES TO THE FINANCIAL STATEMENTS

32. COMMITMENTS AND CONTINGENT LIABILITIES

	December 31, 2014 BAM '000	December 31, 2013 BAM '000
Performance guarantees:		
- in BAM	26,128	19,508
- in foreign currencies	10,483	3,789
Other guarantees:		
- in BAM	14,247	13,902
- in foreign currencies	20,123	8,358
Contingent liabilities based on unused loans and guarantees :		
- in BAM	78,398	60,516
- in foreign currencies	972	152
Letters of credit in foreign currencies	4,331	355
Other sureties	3,600	-
Total	**158,282**	**106,580**

As at December 31, 2014, impairment allowances in respect of commitments and contingencies amounted to BAM 1,381 thousand (2013: BAM 711 thousand). The movements on impairment allowances are presented in Note 27.

33. TRANSACTIONS WITH RELATED PARTIES

In compliance with International Accounting Standard (IAS) 24 parties related to the Bank and Bank key management members are as follows:

IAS 24.19	Name	Description
IAS 24.19 (a),(b)	Parent company and entities with joint control or significant impact on the Bank	UniCredit Bank Austria AG
IAS 24.19 (c)	Subsidiaries and other entities of the same Group	Related banks and other legal entities within UniCredit Group
IAS 24.19 (d), (e)	Associates and joint ventures	The Bank did not have associates or joint ventures in 2014
IAS 24.19 (f)	Key management of the institution or its parent company	Members of the Supervisory Board and Management Board; members of the Supervisory Board and Management Board of the parent company, key Bank management, and persons related to specified members
IAS 24.19 (g)	Other related parties	The Bank did not have other related parties in 2014

NOTES TO THE FINANCIAL STATEMENTS

33. TRANSACTIONS WITH RELATED PARTIES (Continued)

Balances of assets and liabilities arising from transactions with UniCredit Group members are presented below:

	December 31, 2014 BAM '000	December 31, 2013 BAM '000
Assets:		
Foreign currency current accounts:		
- UniCredit Bank Austria AG, Vienna	66,509	4,084
- UniCredit Bank Serbia A.D., Belgrade	49	14
- Zagrebačka banka d.d., Zagreb	280	281
- UniCredit Bank AG, Munich	1,992	470
- Unicredito Italiano SpA, Milan	1,192	153
- UniCredit Bank d.d. Mostar	2	2
	70,024	**5,004**
Short-term deposits:		
- UniCredit Bank Austria AG, Vienna	8,042	50.447
- UniCredit Bank d,d., Mostar	3,600	-
	11,642	**50,447**
Other receivables		
- UniCredit Bank Austria AG, Vienna	538	543
- Unicredito Italiano SpA, Milan	27	93
- UniCredit Bank d,d., Mostar	18	-
Total assets	**82,249**	**51,083**
Liabilities:		
Short-term deposits:		
- UniCredit Bank Austria AG, Vienna	172,998	185,023
- UniCredit d.d., Mostar	38,600	23,000
Other liabilities		
- UniCredit Bank Austria AG, Vienna	131	-
- UniCredit Bank d,d., Mostar	25	-
- Unicredito Italiano SpA, Milan	129	-
- UBIS, Vienna (ex.: UGIS;WAVE, BAGIS)	-	62
- UBIS Prague (formerly.: BTS)	-	5
	285	**67**
Total liabilities	**211,883**	**208,090**
Liabilities, net	**(129,634)**	**(157,007)**

NOTES TO THE FINANCIAL STATEMENTS

33. TRANSACTIONS WITH RELATED PARTIES (Continued)

Balances of income and expenses arising from transactions with related parties are presented below:

	Year Ended December 31, 2014 BAM '000	2013 BAM '000
Items included in the statement of comprehensive income:		
Interest income:		
-UniCredit Bank Austria AG, Vienna	16	14
-UniCredit bank d.d., Mostar	18	14
Total interest income	**34**	**28**
Fee and commission income:		
-UniCredit Bank Austria AG, Vienna	2	3
-UniCredit bank d.d., Mostar	1	6
Total fee and commission income	**3**	**9**
Interest expenses:		
-UniCredit Bank Austria AG, Vienna	1,783	1,817
-UniCredit bank d.d., Mostar	65	199
UniCredit Bank AG Munich	19	-
Total interest expense	**1,867**	**2,016**
Fee and commission expenses:		
-UniCredit Bank Austria AG, Vienna	7	5
-Unicredito Italiano SPA, Milan	5	4
-Zagrebačka banka d.d., Zagreb	107	2
-UniCredit bank d.d., Mostar	56	59
- UniCredit Bank AG Munich	7	1
Total fee and commissions expenses	**182**	**71**
Operating expenses		
Software maintenance costs:		
-UBIS, Vienna (ex, UGIS; WAVE, BAGIS)	1,391	1,286
-UniCredit bank d.d., Mostar	126	240
-Zagrebačka banka d.d., Zagreb	21	-
- ZANE BH d.o.o. Sarajevo	9	-
Total software maintenance costs	**1,547**	**1,526**
Expenses, net	**(3,553)**	**(3,576)**

NOTES TO THE FINANCIAL STATEMENTS

33. TRANSACTIONS WITH RELATED PARTIES (Continued)

The remuneration of members of the Supervisory and Management Boards, and other key management are presented below:

	Year Ended December 31, 2014 BAM '000	2013 BAM '000.
Supervisory Board		
Management Board		
Short-term remuneration		
Gross salaries disbursed in the current year for the current year	690	669
Bonuses disbursed in the current year for the previous year - gross	76	79
Long-term remuneration		
Insurance policies paid in the current year - gross	29	29
Disbursements in the current year based on prior years - gross	75	29
Total	**870**	**806**
Other key management personnel		
Short-term remuneration		
Gross salaries disbursed in the current year for the current year	834	914
Bonuses disbursed in the current year for previous year - gross	125	149
Total	**959**	**1,063**

Other key management personnel comprise 14 employees of the Bank (2013: 14 employees of the Bank).

The amount of salaries and remuneration disbursed to members of Management Board and key management includes the amount of BAM 338 thousand (2013: BAM 346 thousand) of contributions for pension and disability insurance with the prescribed amounts of contributions, which are paid to the mandatory pension funds.

Within the regular transactions, transactions with related parties are performed under fair market terms, which we deem to be 'arm's length' transactions, and our estimate is that the Bank has no risk in respect of transfer prices.

Loans and deposits, and income and expenses arising from loans and deposits of the members of the Supervisory Board, Management Board and other key management are as follows:

	December 31, 2014 BAM '000	December 31, 2013 BAM '000
Supervisory Board	-	-
Management Board		
- Loans as at December, 31	190	228
- Interest income for the year	*11*	*3*
- Deposits as at December 31	53	31
- Interest expenses for the year	-	-
Other key management		
- Loans as at December, 31	432	593
- Interest income for the year	*26*	39
- Deposits as at December, 31	505	290
- Interest expenses for the year	*11*	1
Total key management		
- Loans as at December 31	***622***	***821***
- Interest income for the year	***37***	***42***
- Deposits as at December 31	***558***	***321***
- Interest expenses for the year	***11***	***1***

34. RISK MANAGEMENT

The Bank's risk management is conducted through a system of policies, programs, work procedures and determined limits, which are continuously upgraded in accordance with changes in legislation, changes in business activities based on market trends and development of new products, as well as through the adoption of risk management standards of UniCredit Group (the "Group"). The Group has a comprehensive risk management system based on defined risk appetite, risk strategies and operative policies and procedures and established risk limits.

The Supervisory Board and Management Board of the Bank prescribe overall risk management principles and adopt risk strategies and internal acts covering business areas. In accordance with Group requirements, the Bank has implemented a standard approach to the international Basel II standard, through an IT platform, which is aligned with the requirements of this standard.

Risk management is organized into organizational units within the competence of the Chief Risk Officer:

1. Underwriting, responsible *inter alia* for credit fraud prevention
2. Credit Risk Monitoring
3. Special Credit Management
4. Risk Controlling with the function of collateral management
5. Market Risk Management
6. Operational Risk Management

Within Special Credit Management there are three departments: Restructuring, Workout and Retail Collection Center.

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

34.1. Credit Risk

The Bank is exposed to credit risk which can be defined as the possibility that a borrower may fail to perform the liabilities defined in the respective loan agreements, resulting in a financial loss for the Bank. The assumption of credit risk is managed in accordance with the specific rules and principles defined by the Group for areas of credit strategies, policies, modeling, risk concentration, new products introduction, monitoring and reporting. Credit risk exposure is managed in accordance with the Bank's strategies and policies in force, as well as other internal bylaws prescribed by the Supervisory Board and the Management Board. Credit risk strategies define the main strategic goals, and determine the limits of credit risk assumption within business operations with all customer segments.

General principles and rules of credit risk management have been established by the Group through a general crediting policy, which the Bank applies in its business operations in accordance with the requirements of the local regulator, Group standards and best practices. General rules and principles have been defined in more detail by specified special crediting policies.

a) Credit Risk Measurement

The following factors are taken into account in credit risk measurement: risk of loss resulting from insolvency of the borrower, risk of loss resulting from a change in customer risk rating, credit exposure including balance sheet and off-balance-sheet items of the Bank and the material value of collaterals.

Credit risk is measured at the level of individual loan beneficiaries/transactions and at the level of the total portfolio.

With the support of the Group, the Bank is developing and establishing both a system of credit risk measurement on the portfolio basis applying the Basel II basic parameters of credit risk for calculation of expected loss from the loan portfolio, and the calculation of the internal capital requirements to cover potential loss because of the credit risk on the basis of calculation of loan value at risk (VaR). As the measure of economic / internal capital, loan VaR is also the basic input for defining crediting strategies, analysis of credit limits and risk concentration.

The established system of reporting analyses the main triggers and components of credit risk and their dynamics in order to undertake corrective activities if necessary and in time. Reports contain the information about changes in the size and quality of the credit portfolio at the customer segment level and for the Bank.

NOTES TO THE FINANCIAL STATEMENTS

34. RISK MANAGEMENT (Continued)

b) Risk Control Policies

The Bank manages, limits and controls credit risk concentrations, wherever such risk concentrations have been established, particularly with regard to specific clients and/or groups, and industry sectors.

The Bank sets the credit risk level, which it assumes by setting limits for the amount of risk accepted in relation to one borrower or group of borrowers, or industry segments. Such risks are monitored on a regular quarterly basis via a report to the Credit Committee of the Bank on credit risk concentration per industry and compliance with the adopted strategy. Additionally, through regular monthly Report for the Credit Committee, Risk Management reports to the Credit Committee on defined limits on the Bank level.

The Credit Committee, Management Board and the Supervisory Board of the Bank are regularly informed of all significant changes in the value and quality of the portfolio.

Credit risk is also managed by the regular analysis of the ability of borrowers and potential borrowers to settle liabilities for principal repayment and interest payment, and change in credit limits where necessary.

In order to minimize the risks from lending activities, the Bank has set up policies for definition, assessment and treatment of collateral serving as security for claims collection, and as the collateral for the collection of its claims, it uses acceptable collateral. Acceptable collateral is a pledge over an asset which has a known active market and stable price, whose value is satisfactory relative to the Bank's receivables and which is sufficient to protect the Bank from possible loss of principal, interest, fees and collection costs.

34.1.1. Maximum exposure to credit risk for on and off-balance sheet items

	December 31, 2014 BAM '000	December 31, 2013 BAM '000
Balance sheet assets		
Cash and cash equivalents (Note 17)	69,883	41,412
Obligatory reserve with the Central Bank (Note 18)	51,174	40,975
Loans and receivables due from banks (Note 19)	117,139	97,659
Loans and receivables due from customers - corporate (Note 20)	359,032	375,515
Loans and receivables due from customers - retail (Note 20)	346,708	298,055
Accrued interest	1,343	1,308
Financial assets available for sale (Note 21a)	127,854	69,190
Financial assets held to maturity (Note 21b)	36	105
Other assets (Note 24)	4,244	2,575
Total balance sheet items exposed to credit risk	**1,077,413**	**926,794**
Off-balance sheet items		
Guarantees and other sureties	75,312	45,912
Approved overdrafts, framework loans and guarantees	82,970	60,668
Total off-balance-sheet exposure to credit risk	**158,282**	**106,580**
	1,235,695	**1,033,374**

The table above represents the maximum exposure to credit risk of the Bank as at December 31, 2014 and 2013, without taking into consideration pledges or other loan security instruments. For balance sheet assets, the presented exposures are based on net carrying values. As shown in the table above, 57.1% of the total maximum exposure originates from loans to customers (2013: 65.2%) and 9.5% originates from loans to other banks (2013: 9.5 %). The Management Board believes in the Bank's ability to continue controlling and maintaining the exposure to credit risk.

NOTES TO THE FINANCIAL STATEMENTS

34. RISK MANAGEMENT (Continued)

34.1. Credit Risk (Continued)

34.1.1. Maximum exposure to credit risk for on and off-balance sheet items (Continued)

The Bank obtains collaterals securitizing loans and receivables in the form of mortgages assigned over real estate, pledge liens assigned over other assets, and guarantees. Initial appraisals of the value of collaterals, or real estate, are performed upon loan approval, i.e., they are an integral part of the process of customer loan request approval. Revaluations are performed in accordance with the principles and rules of the collateral management system. Collaterals are not taken in instances of loans and advances from other banks and financial assets available for sale.

In view of the impact of the general financial and economic crisis, there is considerable uncertainty related to the fair market value of such collaterals, along with the time needed to realize the sale thereof.

34.1.2. Credit risk management and policies for impairment and provisions

Impairment and impairment policies

At each reporting date, the Bank checks the existence of objective evidence of impairment of financial assets, as previously explained in Note 3.6.

For the purpose of determining impairment of loans and receivables, the Bank distinguishes two approaches

- Loans assessed on an individual basis
- Loans assessed on a group basis (general IBNR and special provisions).

Loans assessed on an individual basis

Individually significant loans are assessed on an individual basis are all loans for objective evidence of impairment. Factors that can influence the ability and readiness of each individual debtor to fulfill their obligations toward the Bank, are as follows:

- failure to settle or delay in payment of interest or principal
- failure to comply with the contractual terms and conditions
- bankruptcy or instigation of bankruptcy proceedings
- any specific information about business difficulties (e.g., reflected in the insufficient liquidity of the customer)
- significant changes in the customer's market environment
- global economic situation.

Loans assessed on a portfolio basis ("IBNR" and special provisions)

In order to assess the impairment of loans that are not individually significant, such loans are grouped based on the similar credit risk characteristics. The Bank has segmented the loan portfolio into the risk groups based on the credit rating for corporate customers and number of days past-due for retail customers and, accordingly, applying parameters of credit risk (such as probability of default, loss given default, amount that the Bank requires in instances of non-performance of obligations) determined by Basel II and in conformity with IFRS requirements it impairs loans.

34. RISK MANAGEMENT (Continued)

34.1. Credit Risk (Continued)

34.1.2. Credit risk management and policies for impairment and provisions (Continued)

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

- Performing loans – loans that are neither due nor impaired
- Past due but not impaired loans
- Non-performing loans for which impairment has been recognized.

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

	December 31, 2014 BAM '000			December 31, 2013 BAM '000		
	Loans	**Provisions**	**%**	**Loans**	**Provisions**	**%**
Performing and past due but not impaired loans not specifically impaired						
- loans to corporate	344,707	5,970	1.7%	357,136	5,057	1.4%
- loans to retail	345,507	2,256	0.7%	296,237	2,564	0.9%
	690,214	**8,226**	**1.2%**	**653,373**	**7,621**	**1.2%**
Non-performing loans						
- loans to corporate	56,090	35,795	63.8%	54,294	30,858	56.8%
- loans to retail	21,093	17,636	83.6%	20,453	16,071	78.6%
	77,183	**53,431**	**69.2%**	**74,747**	**46,929**	**62.8%**
Total loans	**767,397**	**61,657**	**8.0%**	**728,120**	**54,550**	**7.5%**

Provision coverage of the non-performing portfolio amounts to 69.2 % (2013: 62.8 %).

NOTES TO THE FINANCIAL STATEMENTS

34. RISK MANAGEMENT (Continued)

34.1. Credit Risk (Continued)

34.1.2. Credit risk management and policies for impairment and provisions (Continued)

The table below presents the analysis of gross and net (net of impairment allowance) loans and receivables due from customers:

	December 31, 2014 BAM '000	December 31, 2013 BAM '000
Corporate		
Loans to customers that are neither due nor impaired	343,971	356,994
Past-due but not impaired loans	736	142
Non-performing loans (impaired loans)	56,090	54,294
Gross exposure	**400,797**	**411,430**
***Less:* Impairment allowance:**		
- Portfolio (IBNR), individual and group impairment allowance	(41,765)	(35,915)
Net exposure	**359,032**	**375,515**

	December 31, 2014 BAM '000	December 31, 2013 BAM '000
Retail		
Loans to customers that are neither due nor impaired	345,451	296,174
Past due but not impaired loans	56	63
Non-performing loans (impaired loans)	21,093	20,453
Gross exposure	**366,600**	**316,690**
***Less:* Impairment allowance:**		
- Portfolio (IBNR), individual and group impairment allowance	(19,892)	(18,635)
Net exposure	**346,708**	**298,055**
Total gross exposure	**767,397**	**728,120**
Portfolio impairment allowance (IBNR)	(8,226)	(7,621)
Individual and group impairment allowance	(53,431)	(46,929)
Net exposure	**705,740**	**673,570**

NOTES TO THE FINANCIAL STATEMENTS

34. RISK MANAGEMENT (Continued)

34.1. Credit Risk (Continued)

34.1.2. Credit risk management and policies for impairment and provisions (Continued)

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

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

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

	Retail loans				**Corporate loans**			
	Customer loans	Housing loans	Credit card loans and overdrafts	**Total**	Large	Medium	Small	**Total**
Decembr 31, 2014	BAM '000	BAM '000	BAM '000	**BAM '000**	BAM '000	BAM '000	BAM '000	**BAM '000**
Standard monitoring	257,564	67,939	19,948	**345,451**	235,194	75,199	33,578	**343,971**
December 31, 2013								
Standard monitoring	211,942	64,634	19,598	**296,174**	268,674	54,455	33,865	**356,994**

NOTES TO THE FINANCIAL STATEMENTS

34. RISK MANAGEMENT (Continued)

34.1. Credit Risk (Continued)

34.1.2. Credit risk management and policies for impairment and provisions (Continued)

b) *Past due but not impaired loans*

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

	Retail loans				Corporate loans			
December 31, 2014	Customer loans	Housing loans	Credit card loans and overdrafts	**Total**	Large	Medium	Small	**Total**
Past-due	BAM '000	BAM '000	BAM '000	**BAM '000**	BAM '000	BAM '000	BAM '000	**BAM '000**
Past due up to 30 days	26	1	-	27	-	250	42	292
Past due 30 – 60 days	16	-	-	16	-	-	410	410
Past due 60 – 90 days	13	-	-	13	-	33	1	34
Past due over 90 days	-	-	-	-	-	-	-	-
Total	**55**	**1**	**-**	**56**	**-**	**283**	**453**	**736**
Value of collateral	**1**	**1**	**-**	**2**	**-**	**250**	**5**	**255**
December 31, 2013								
Past due								
Past due up to 30 days	22	-	-	22	-	12	27	39
Past due 30 – 60 days	29	-	-	29	-	-	24	24
Past due 60 – 90 days	12	-	-	12	-	-	79	79
Past due over 90 days	-	-	-	-	-	-	-	-
Total	**63**	**-**	**-**	**63**	**-**	**12**	**130**	**142**
Value of collateral	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS

34. RISK MANAGEMENT (Continued)

34.1. Credit Risk (Continued)

34.1.2. Credit risk management and policies for impairment and provisions (Continued)

c) Non-performing loans (impaired loans)

The classification of loans to customers that are impaired, together with the allocated value of associated collateral instruments, is as follows:

	Retail loans				Corporate loans			
	Customer loans	Housing loans	Credit card loans and overdrafts	**Total**	Large	Medium	Small	**Total**
December 31, 2014	BAM '000	BAM '000	BAM '000	**BAM '000**	BAM '000	BAM '000	BAM '000	**BAM '000**
Non-performing loans	13,952	4,779	2,362	**21,093**	2,357	31,832	21,901	**56,090**
Value of collateral	219	3,933	-	**4,152**	1,534	18,932	11,395	**31,861**
December 31, 2013								
Non-performing loans	15,965	2,305	2,183	**20,453**	7,202	25,156	21,936	**54,294**
Value of collateral	2,497	2,292	-	**4,789**	7,167	20,468	15,474	**43,109**

The data shown in the table above are presented in gross amounts.

As at December 31, 2014, assets acquired in settlement of non-performing loans amounted to BAM 81 thousand (2013: BAM 81 thousand), which are recorded off-balance.

d) Restructured loans and receivables

During the year, the Bank restructured certain loans to customers in order to improve their final recoverability. Restructuring is mainly performed in response to deterioration or for the prevention of further deterioration of the customer financial situation based on an analysis of the possibility of successful restructuring in order to remove difficulties in the client's operations within a defined time limit and return the client to the "performing" portfolio,

Restructured loans (exposure per all restructured loans irrespective of the remit they belong to) amounted to a total of BAM 33,553 thousand as at December 31, 2014 (2013: BAM 28,228 thousand).

	December 31, 2014 BAM '000	**December 31, 2013 BAM '000**
Restructured loans	33,553	28,228
Loan portfolio - gross	767,397	728,120
Restructured loans recorded as % of the gross loan portfolio	4.4%	3.9%

NOTES TO THE FINANCIAL STATEMENTS

34. RISK MANAGEMENT (Continued)

34.2. Liquidity Risk

The liquidity risk represents the risk that the Bank will not be able to settle its financial liabilities fully and without any delay. In this sense, the main target of the Bank, when managing liquidity risk as the central risk inherent in banking operations, is to align its business activities and ensure optimal liquidity in accordance with minimum standards and limits prescribed by the Banking Agency of the Republic of Srpska, BH Central Bank and the Group.

The Bank has the access to different sources of financing which include different types of deposits of individuals and legal entities, banks (within and out of the Group), and loan facilities. The aforesaid sources enable flexibility of funding sources and limit the dependence on any single source, thus providing a high level of their own sustainability in possible crises.

The Bank has implemented the liquidity policies of the Group, by which there are defined methods and procedures of liquidity parameters analysis, responsibilities of managing functions and reporting lines, which cover the short term, medium term and long term liquidity, as well as the liquidity stress tests. In accordance with Group guidelines, the exposure to liquidity risk is held at the level at which the Bank is able to observe its payment obligations on regular basis, and also in the crisis period, by ensuring the monitoring of short term and long term requirements for liquidity. Bank adopted the Contingency Liquidity Management Policy consisting of Liquidity Management Policy and Contingency Action Plan.

Short-term liquidity maintenance requirements are planned each month for the period of the next six months. They are controlled and maintained daily. The ALCO manages the daily reserves of liquidity, providing the compliance with the customers' needs.

The following table shows the profile of structural liquidity, which represents the analysis of assets and liabilities according to appropriate time baskets, based on the remaining period of the agreed maturity, with the following exceptions:

1) Current and demand savings accounts, and overdrafts per current accounts of legal entities and private individuals are mapped on the basis of their estimated stability in compliance with BARS decisions and in accordance with Group standards.

2) Securities available for sale are mapped on the basis of the assessment of the period of marketability and possibility to pledge the securities with the Central Bank, in accordance with the Group Standards.

3) Non-performing loans, other assets, equity and reserves are also mapped according to the Group standard rules, for the longest term to maturity.

NOTES TO THE FINANCIAL STATEMENTS

34. RISK MANAGEMENT (Continued)

34.2. Liquidity Risk (Continued)

December 31, 2014	Up to 1 month BAM '000	From 1 to 3 months BAM '000	From 3 to 12 months BAM '000	From 1 to 5 years BAM '000	Over 5 years BAM '000	Total BAM '000
Assets						
Cash and cash equivalents	69,883	-	-	-	-	69,883
Obligatory reserve with the Central bank	51,174	-	-	-		51,174
Loans and receivables due from banks	117,139	-	-	-	-	117,139
Financial assets available for sale	-	-	127,473	9	372	127,854
Loans and receivables due from customers	15,968	31,697	95,014	313,775	248,502	704,956
Financial assets held to maturity	-	-	29	7	-	36
Property and equipment	-	-	-	-	16,391	16,391
Intangible assets	-	-	-	-	1,957	1,957
Other assets	2,122	849	1,273	-	-	4,244
Deferred tax assets	-	-	88	-	-	88
Total assets	**256,286**	**32,546**	**223,877**	**313,791**	**267,222**	**1,093,722**
Liabilities, equity and reserves						
Deposits and loans due to banks	98,383	64,028	33,657	38,330	15,360	249,758
Deposits and loans due to customers	85,511	87,164	124,295	238,928	126,631	662,529
Other liabilities	4,274	4,274	5,129	3,420	-	17,097
Provisions for liabilities and costs	-	-	127	2,419	-	2,546
Income tax payable	-	28	-	-	-	28
Deferred tax liabilities	-	-	-	-	-	-
Equity and reserves	-	-	-	-	161,764	161,764
Total liabilities, equity and reserves	**188,168**	**155,494**	**163,208**	**283,097**	**303,755**	**1,093,722**
Liquidity gap	**68,118**	**(122,948)**	**60,669**	**30,694**	**(36,533)**	**-**

NOTES TO THE FINANCIAL STATEMENTS

34. RISK MANAGEMENT (Continued)

34.2. Liquidity Risk (Continued)

December 31, 2013	Up to 1 month BAM '000	From 1 to 3 months BAM '000	From 3 to 12 months BAM '000	From 1 to 5 years BAM '000	Over 5 years BAM '000	Total BAM '000
Assets						
Cash and cash equivalents	41,412	-	-	-	-	41,412
Obligatory reserve with the Central bank	40,975	-	-	-		40,975
Loans and receivables due from banks	97,659	-	-	-	-	97,659
Financial assets available for sale	1	-	68,805	10	374	69,190
Loans and receivables due from customers	62,340	24,502	76,781	291,008	217,301	671,932
Financial assets held to maturity	-	-	69	36	-	105
Property and equipment					17,049	17,049
Intangible assets	-	-	-	-	3,039	3,039
Other assets	1,288	515	773	-	-	2,575
Deferred tax assets	-	-	54	-	-	54
Total assets	**243,674**	**25,017**	**146,482**	**291,054**	**237,763**	**943,990**
Liabilities, equity and reserves						
Deposits and loans due to banks	138,409	6,000	29,305	62,793	15,521	252,028
Deposits and loans due to customers	76,970	73,867	95,133	187,238	99,673	532,881
Other liabilities	3,206	3,117	3,727	2,366	-	12,416
Provisions for liabilities and costs	-	-	125	1,963	-	2,088
Income tax payable	-	264	-	-	-	264
Deferred tax liabilities	-	-	-	-	-	-
Equity and reserves	-	-	-	-	144,313	144,313
Total liabilities, equity and reserves	**218,585**	**83,248**	**128,290**	**254,360**	**259,507**	**943,990**
Liquidity gap	**25,089**	**(58,231)**	**18,192**	**36,694**	**(21,744)**	**-**

NOTES TO THE FINANCIAL STATEMENTS

34. RISK MANAGEMENT (Continued)

34.3. Market Risk Management

Market risks result from general and specific trends and changes of specified market variables (interest rates, prices of securities, exchange rate changes) which can affect the economic value the Bank's portfolio in the trading book and in the banking book. The Bank is exposed to market risk mainly because of positions and business activities in the banking book.

Market risk exposure management includes the activities related to the operations of the Financial Markets and Assets and Liabilities Management function, and it has been organized through a system of internal acts and the setting of defined limits and warning signals which are supervised on a daily basis. Market risk measuring is based on the VaR (“Value at Risk”) methodology. VaR is the appraised potential overnight loss which occurs at total and particular positions of balance sheet structure in a defined time period, based on numerous assumptions of changes in market conditions with a confidence level of 99%. The Group uses historic volatility simulation as an assessment model based on the last 500 daily return observations, VaR model quality is continuously monitored by back testing. Beside the VaR methodology, Market Risk Management also uses open FX position limits and base point calculation as a supplement to set VaR limits.

Factors which are also of importance for the assessment of market risk impact on the Banks’ portfolio are stress-oriented warning levels and limits. The Bank performs stress liquidity tests within Risk Management in accordance with group parameters for:

- foreign currency,
- interest rate and
- liquidity risks,

and the results are included in regular ALCO reports.

The Bank performs activities on market risk limit review closely cooperating with UniCredit Bank Austria AG, Vienna. These activities are performed at least on annually, and if needed more often in accordance with business changes as a result of changes of legal regulations, business strategies goals development as well as targeted risk profile.

The set of documents with rules for operations performed by Financial Markets and Market Risk Management is made in the form of a Financial Markets Rulebook which is divided into three parts (General, Specific and Unit). Only the permitted risk bearers are enabled to enter into the risk-weighted items.

Overview of total VaR position of the Bank:

	2014 BAM ‘000	**2013 BAM ‘000**
- average for the period	317	279
- maximum for the period	648	326
- minimum for the period	230	237

In addition to group market risk techniques, methods and measuring models, the Bank continuously works on the improvement of the business processes and data quality.

34.3.1. Currency risk

Currency risk is the risk of the possibility of occurrence of adverse effects on the financial results and net assets due to volatility in exchange rates. The Bank’s exposure to foreign currency risk results from credit, deposit and trading activities and is controlled daily, according to legal and internal Group limits for particular payment currencies, and in total amount for all assets and liabilities denominated in foreign currency or indexed to a foreign currency.

Market Risk Management is responsible for daily monitoring of foreign exchange risk calculations in accordance with the Group guidelines in compliance with defined rules for trend monitoring through the conversion accounts for individual currencies.

NOTES TO THE FINANCIAL STATEMENTS

34. RISK MANAGEMENT (Continued)

34.3. Market Risk Management (Continued)

34.3.1. Currency risk (Continued)

The Bank intends to direct its business activities with a view to minimizing the mismatch between assets and liabilities denominated in the foreign currency or with the foreign currency clauses, keeping daily operations within set limits.

All sensitivities stemming from positions in or linked to foreign currencies are covered by general daily VaR limit also, which among other risks, limits the maximum permitted loss of open positions in the foreign currencies.

Stress testing for currency risk is performed by the including appreciation and depreciation shocks for all the major currencies and currency buckets and the results are presented within regular ALCO reports.

Exposure to this risk is monitored on a daily basis in accordance with legally and internally determined limits for each currency and in the total amount for assets and liabilities denominated in foreign currencies or linked thereto with a foreign currency clause. According to local regulations the currency risk ratio is the proportion between the total open foreign currency items and the Bank's core capital (Tier 1).

In accordance with the decision which regulates the minimum standards for currency risk management, the Bank is required to maintain relations between assets and liabilities in each individual currency so that its total open foreign currency position at the end of each working day is not higher than 30 % of its core capital. According to internal regulations the Bank measures the risk of exposure to change in foreign currency rate through openness of positions in foreign currency in relation to limits defined in the absolute amounts.

	2014	**2013**
Currency risk ratios:		
- as at December 31	26.07%	12.5%
- maximum for the month of December	26.07%	25.6%
- minimum for the month of December	0.71%	4.3%

The major portion of business transactions exposes the Bank to the risk of change in the EUR exchange rate; however due to the Currency Board regime currently in place, according to which the ratio of the local currency to EUR is fixed, it can be deemed that there is no foreign exchange rate risk to the Bank.

The Bank protects itself from exposure to currency risk in foreign currencies other than EUR by managing foreign currency position, within the assets and liabilities management strategy, in such a manner that the positions opened through operations with customers are closed by opposite transactions, so that the open position of the Bank is reduced to the minimum.

The analysis of assets and liabilities shown in foreign currency amounts, as at December 31, 2014, is presented in the table below:

NOTES TO THE FINANCIAL STATEMENTS

34. RISK MANAGEMENT (Continued)

34.3. Market Risk Management (Continued)

34.3.1. Currency risk (Continued)

	EUR BAM '000	EUR related items BAM '000	USD BAM '000	Other currencies BAM '000	Total currencies BAM '000	BAM BAM '000	Total BAM '000
December 31, 2014							
Assets							
Cash and cash equivalents	6,261	-	282	863	7,406	62,477	69,883
Obligatory reserve with Central bank	-	-	-	-	-	51,174	51,174
Loans and receivables due from banks	94,881	-	9,909	8,749	113,539	3,600	117,139
Financial assets available for sale	-	53,848	-	-	53,848	74,006	127,854
Loans and receivables due from customers	109,368	329,436	-	-	438,804	266,152	704,956
Financial assets held to maturity	-	-	-	-	-	36	36
Property and equipment	-	-	-	-	-	16,391	16,391
Intangible assets	-	-	-	-	-	1,957	1,957
Other assets	131	438	114	13	696	3,548	4,244
Deferred tax assets	-	-	-	-	-	88	88
Total assets	**210,641**	**383,722**	**10,305**	**9,625**	**614,293**	**479,429**	**1,093,722**
Liabilities and equity							
Deposits and loans due to banks	211,025	-	-	-	211,025	38,733	249,758
Deposits and loans due to customers	223,486	161,819	13,453	14,018	412,776	249,753	662,529
Other liabilities	5,179	780	81	118	6,158	10,939	17,097
Provisions for liabilities and costs	1,571	-	-	-	1,571	975	2,546
Income tax payable					-	28	28
Net deferred tax liabilities	-	-	-	-	-	-	-
Equity and reserves	3,496	-	-	-	3,496	158,268	161,764
Total liabilities, equity and reserves	**444,757**	**162,599**	**13,534**	**14,136**	**635,026**	**458,696**	**1,093,722**
Net foreign currency position	(234,116)	221,123	(3,229)	(4,511)	(20,733)	20,733	0

The depreciation of foreign currencies (except for EUR) against BAM by 10%, with all other variables remaining unaltered, would result in an increase of profit for the year 2014 by the amount of BAM 774 thousand (2013: increase of BAM 846.4 thousand).

The appreciation of 10% of foreign currencies other than EUR against BAM would result in a decrease of profit for the year 2014 by the amount of BAM 774 thousand (2013: decrease of BAM 846.4 thousand).

NOTES TO THE FINANCIAL STATEMENTS

34. RISK MANAGEMENT (Continued)

34.3. Market Risk Management (Continued)

34.3.1. Currency risk (Continued)

	EUR BAM '000	EUR related items BAM '000	USD BAM '000	Other currencies BAM '000	Total currencies BAM '000	BAM BAM '000	Total BAM '000
December 31, 2013							
Assets							
Cash and cash equivalents	6,606	-	236	1,122	7,964	33,448	41,412
Obligatory reserve with Central bank	-	-	-	-	-	40,975	40,975
Loans and receivables due from banks	88,648	-	6,476	2,535	97,659	-	97,659
Financial assets available for sale	-	11,791	-	-	11,791	57,399	69,190
Loans and receivables due from customers	112,347	332,634	-	-	444,981	226,951	671,932
Financial assets held to maturity	-	-	-	-	-	105	105
Property and equipment	-	-	-	-	-	17,049	17,049
Intangible assets	-	-	-	-	-	3,039	3,039
Other assets	111	126	220	12	469	2,106	2,575
Deferred tax assets	-	-	-	-	-	54	54
Total assets	**207,712**	**344,551**	**6,932**	**3,669**	**562,864**	**381,126**	**943,990**
Liabilities							
Liabilities and equity							
Deposits and loans due to banks	229,012	-	1	-	229,013	23,015	252,028
Deposits and loans due to customers	185,746	107,770	8,956	9,246	311,718	221,163	532,881
Other liabilities	4,304	249	802	60	5,415	7,001	12,416
Provisions for liabilities and costs	292	-	-	-	292	1,796	2,088
Income tax payable	-	-	-	-	-	-	-
Net deferred tax liabilities	-	-	-	-	-	264	264
Equity and reserves	3,382	-	-	-	3,382	140,931	144,313
Total liabilities, equity and reserves	**422,736**	**108,019**	**9,759**	**9,306**	**549,820**	**394,170**	**943,990**
Net foreign currency position	**(215,024)**	**236,532**	**(2,827)**	**(5,637)**	**13,044**	**(13,044)**	**-**

NOTES TO THE FINANCIAL STATEMENTS

34. RISK MANAGEMENT (Continued)

34.3. Market Risk Management (Continued)

34.3.2. Interest rate risk

The Bank is exposed to risk from interest rate fluctuations which have an impact on the financial position of the Bank and its cash flows. The Bank's business operations are influenced by interest rates changes, to the extent that interest bearing assets and liabilities mature or their interest rates change at different times or in different amounts, Interest rate margins may grow as the result of those fluctuations however at the same time they may be reduced and cause losses in the event of unexpected fluctuations.

The main sources of interest rate risk are as follows:

- repricing risk resulting from unfavorable changes in the fair value of assets and liabilities during the remaining period until the next interest rate change (items with fixed interest rate are classified according to the remaining maturity);
- risk of change in inclination and shape of the yield curve (yield curve risk);
- risk of different changes in interest earned and interest paid (basis risk) of instruments having identical maturity and denominated in identical currency, where the interest rates are based on different reference rate types (e.g. EURIBOR vs. LIBOR).

Exposure to risk of interest rate changes is monitored by reports and in accordance with Group guidelines and it is in the domain of Market Risk Management. The methodology which is used for risk assessment of interest rate changes is based on the GAP analysis of time differences. Differences between interest-bearing assets and liabilities in different time "baskets" show how two sides of the balance sheet may react differently on the change of interest rates:

- in case of a positive GAP difference, the Bank is exposed to a risk of loss in the event that interest rates of given maturities for the relevant payment currency fall,
- in case of negative GAP difference the Bank is exposed to risk of loss in the event that interest rates of the given maturity for the relevant payment currency grow.

Risk is measured calculating the change in net present value of the portfolio in case of reference rate curve shift by 0.01% (1 basis point) and it is limited by BPV limit (basis point value limit) as a sensitivity measure. BPV limits are defined in summary, per currency and per time baskets. BPV limits for daily operations matching are regulated by UniCredit Group. Interest risk is also monitored through the specified VaR model.

Stress testing conducted by the Bank in compliance with UniCredit Group parameters for interest rate risk category includes scenarios of various shocks on interest curves. Shocks include change in interest rate level (parallel shifts), curve rotations, change in curve inclination and peaks in specific segments of interest curves.

The Bank estimates the interest rate exposure also based on net interest income sensitivity analysis.

Economic capital sensitivity analysis

At the end of 2013 the Bank improved the methods of interest rate risk measurement by introducing economic capital sensitivity analysis in compliance with the Group and Basel II regulatory framework and the result thereof is included in the regular ALCO report.

An overview of the Bank's exposure to interest rate risk as at December 31, 2014 and 2013 is shown on the following pages.

The Bank is exposed to various risks which through the effects of fluctuations in the levels of market interest rates have an impact on its financial position and cash flows. The following table presents the Bank's estimate of the interest rate risk as at December 31, 2014 and 2013, as well as certain sensitivity of the Bank's earnings to movements in interest rates, which is not necessarily indicative for forthcoming periods.

NOTES TO THE FINANCIAL STATEMENTS

34. RISK MANAGEMENT (Continued)

34.3. Market Risk Management (Continued)

34.3.2. Interest rate risk (Continued

a) Period of interest rate changes, interest risk analysis and amounts subject to fixed interest rates

Earnings will also be affected by the maturity structure of the Bank's assets and liabilities.

	Up to 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Non-interest bearing	Total	Fixed interest rate
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
December 31, 2014								
Assets								
Cash and cash equivalents	53,169	-	-	-	-	16,714	69,883	-
Obligatory reserve with the Central bank	51,174	-	-	-	-	-	51,174	-
Loans and receivables due from banks	117,139	-	-	-	-	-	117,139	-
Financial assets available for sale	-	5,086	9,460	112,936	-	372	127,854	127,482
Loans and receivables due from customers	153,404	346,921	169,955	23,524	11,152		704,956	201,860
Financial assets held to maturity	-	-	-	36	-	-	36	36
Property and equipment	-	-	-	-	-	16,391	16,391	-
Intangible assets	-	-	-	-	-	1,957	1,957	-
Other assets	-	-	-	-	-	4,244	4,244	-
Deferred tax assets						88	88	-
Total assets	**374,886**	**352,007**	**179,415**	**136,496**	**11,152**	**39,766**	**1,093,722**	**329,378**
Liabilities and equity								
Deposits and loans due to banks	810	209,753	39,070	-	-	125	249,758	-
Deposits and loans due to customers	226,269	96,513	76,808	133,883	12,391	116,665	662,529	261,148
Other liabilities	-	-	-	-	-	17,097	17,097	-
Provisions for liabilities and costs	-	-	-	-	-	2,546	2,546	-
Income tax payable	-	-	-	-	-	28	28	-
Deferred tax liabilities	-	-	-	-	-	-	-	-
Equity and reserves	-	-	-	-	-	161,764	161,764	-
Total liabilities, equity and reserves	**227,079**	**306,266**	**115,878**	**133,883**	**12,391**	**298,225**	**1,093,722**	**261,148**
Bank's interest rate mismatch	147,808	45,741	63,537	2,613	(1,239)	(258,459)	-	68,230

NOTES TO THE FINANCIAL STATEMENTS

34. RISK MANAGEMENT (Continued)

34.3. Market Risk Management (Continued)

34.3.2. Interest rate risk (Continued

a) Period of interest rate changes, interest risk analysis and amounts subject to fixed interest rates (continued)

	Up to 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Non-interest bearing	Total	Fixed interest rate
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
December 31, 2013								
Assets								
Cash and cash equivalents	22,724	-	-	-	-	18,688	41,412	-
Obligatory reserve with the Central bank	40,975	-	-	-	-	-	40,975	-
Loans and receivables due from banks	97,659	-	-	-	-	-	97,659	97,659
Financial assets available for sale	-	8,318	6,542	53,956	-	374	69,190	68,816
Loans and receivables due from customers	194,060	345,765	106,086	20,287	5,734	-	671,932	34,521
Financial assets held to maturity	-	-	-	105	-	-	105	105
Property and equipment	-	-	-	-	-	17,049	17,049	-
Intangible assets	-	-	-	-	-	3,039	3039	-
Other assets	-	-	-	-	-	2,575	2,575	-
Deferred tax assets						54	54	-
Total assets	**355,418**	**354,083**	**112,628**	**74,348**	**5,734**	**41,779**	**943,990**	**201,101**
Liabilities and equity								
Deposits and loans due to banks	711	209,453	41,173	-	-	691	252,028	-
Deposits and loans due to customers	194,556	65,321	69,759	85,286	8,717	109,242	532,881	9,277
Other liabilities	-	-	-	-	-	12,416	12,416	-
Provisions for liabilities and costs	-	-	-	-	-	2,088	2,088	-
Income tax payable						264	264	
Deferred tax liabilities	-	-	-	-	-	-	-	-
Equity and reserves	-	-	-	-	-	144,313	144,313	-
Total liabilities, equity and reserves	**195,267**	**274,774**	**110,932**	**85,286**	**8,717**	**269,014**	**943,990**	**9,277**
Bank's interest rate mismatch	160,151	79,309	1,696	(10,938)	(2,983)	(227,235)	-	191,824

NOTES TO THE FINANCIAL STATEMENTS

34. RISK MANAGEMENT (Continued)

34.3. Market Risk Management (Continued)

34.3.2. Interest rate risk (continued

Sensitivity analysis

Simulation is performed by measuring the impact of change in the interest rate by 1 pp on the net interest income for the period of 12 months based on simultaneous growth or drop of interest rates against all positions in the Bank's statement of financial position sensitive to the interest rate change. Changes in net interest income due to changes in interest rates should not exceed 7.5% of the projected net interest income.

Taking into consideration discrepancies between assets and liabilities in the observed periods: up to one month, 1-3 months and 3-12 months, an assessment of the impact of interest rate change of +/-1 pp was performed on the net interest income of the Bank for 2014 and for 2013.

It was estimated from the specified assumptions that an interest rate decrease by 1 pp would cause a decrease in the interest rate income for 2014 in the amount of BAM 2,301 thousand, or 5.3% of the total net interest income. Simulation of the impact of interest rate change on net interest income in the previous year resulted in decrease by of approximately BAM 2.412 thousand or 5.5% of the total net interest income.

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

December 31, 2014	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Liabilities						
Transaction accounts and deposits of banks	108,261	45,353	44,316	41,595	11,299	250,824
Transaction accounts and deposits of customers	80,852	73,588	138,387	270,854	120,834	684,515
Other liabilities	5,710	4,565	3,550	5,156	1,435	20,416
Total liabilities	**194,823**	**123,506**	**186,253**	**317,605**	**133,568**	**955,755**
December 31, 2013						
Transaction accounts and deposits of banks	138,459	6,142	29,540	62,786	15,525	252,452
Transaction accounts and deposits of customers	66,192	60,836	104,919	204,144	111,472	547,563
Other liabilities	7,088	780	3,562	4,080	2,206	17,716
Total liabilities	**211,739**	**67,758**	**138,021**	**271,010**	**129,203**	**817,731**

b) Effective interest rates

The following table presents the effective interest rates calculated as the weighted average for the financial instruments in the reporting period:

	December 31, 2014	December 31, 2013
	%	%
Obligatory reserve with the Central Bank	0.05	0.05
Loans and advances to banks	0.12	0.04
Loans to customers	7.62	7.35
Debt securities available for sale	5.80	5.90
Transaction accounts and deposits of banks	1.07	1.00
Transaction accounts and deposits of customers	1.87	1.76
Borrowings	2.02	1.59

NOTES TO THE FINANCIAL STATEMENTS

34. RISK MANAGEMENT (Continued)

34.3. Market Risk Management (Continued)

34.3.3. Risk of changes in interest rate margin

Within market-risk-measuring techniques the Bank measures the impact of interest rate margin changes in securities with fixed yield. The risk of change in securities price due to issuer credit risk change (margin perceived by the market) is measured and limited by CPV limit -basis point credit margin value (Credit Point Value). This limit has been applied since 2013. CPV limit is similar to BPV (Basis Point Value) and limits the risk of change in the net present value of securities portfolio if the impact of interest margin change shifts by 0.01% (1 basis point). BPV limit limits total sensitivity of the Bank's items to changes in interest rates and CPV limit additionally limits investments in securities with regard to the volume and duration.

34.4. Operational Risk

Operational risk is the risk of incurring a loss due to inadequate or poor internal processes, systems and procedures, as well as due to errors made by employees during their work or the result of externally caused events. Definition of operational risks includes legal risk; however it excludes strategic and reputational risk.

Operational risk events are events resulting from inadequate or failed internal processes, people and systems or from systemic or other external events: internal or external fraud, relations with employees and safety at workplace, customer complaints, distribution of products, fines and penalties for non-compliance with regulations, damage to tangible assets of the Bank, work disruptions and errors in the system and process management.

In accordance with rules and methodology of the Group as well as BARS regulations, the Bank has established and is continuously improving the operational risk management system. The system includes tools and mechanisms for continuous monitoring of damages that the Bank bears by operational risk and the Bank's exposure to operational risks, the assessment of operational risk within processes and products, and defining the ways to avoid, control or transfer operational risk to third parties, as well as a reporting system.

For operational risk loss data recording, analyzed scenarios records, recording and monitoring of risk indicators, reporting and analysis of data regarding Bank operational risk the Bank uses Group tool ARGO.

The Bank's management and the Group are regularly informed and receive reports in respect of the aforementioned processes and indicators which constitute the operational risk management system. In addition, the operational risk management system is aligned with the standards of the UniCredit Group and local and international regulations.

Given the significance of the reputational risk and the requirements and standards of the Group, the Bank has finished the process of implementing reputational risk management by adopting and implementing special policies and procedures regulating the area of reputational risk management.

34.5. Capital Management

The Bank's objectives in capital management are:

- compliance with capital requirements set by regulators of banks and capital markets,
- maintenance of the Bank's ability to continue the business operations so that it could ensure return to shareholders and benefits for other interested parties, and
- maintenance of a strong capital basis to support the development of its business activities.

The Bank monitors capital adequacy using techniques based on the regulatory requirements of BARS. Minimum capital standards defined by the law and other regulations are: maintenance of minimum level of the net capital, maintenance of the ratio of the total net capital to the total risk weighted assets at the prescribed minimum of 12%, . maintenance of the ratio of the core capital to the total risk weighted assets at the prescribed minimum of 8% (as from December 31, 2005) and maintenance of the leverage ratio at the prescribed minimum of 6%.

The Bank's net capital, which is used for calculation of the Bank's capital adequacy ratio, represents the sum of tier 1 and tier 2 capital, decreased by deductibles consisting of, inter alia, the amount of shortfall regulatory reserves for credit losses.

NOTES TO THE FINANCIAL STATEMENTS

34. RISK MANAGEMENT (Continued)

34.5. Capital Management (Continued)

Core, supplementary, net capital and capital adequacy calculated pursuant to the BARS regulations, are presented in the following table:

	December 31, 2014 BAM '000	December 31, 2013 BAM '000
Tier 1 capital		
Ordinary shares	97,055	97.055
Share premium	373	373
General legal reserves	9,706	5.854
Other reserves from profit	8,511	8.511
Retained earnings from prior and current years	25,588	12.207
Deductible items		
Intangible assets	(1,957)	(3.039)
Deferred tax assets	(88)	-
Negative revaluation reserves	(790)	-
Total tier 1 capital	**138,398**	**120,961**
Tier 2 capital		
General reserves	14,513	12,562
Positive revaluation reserves	123	-
Audited profit	-	16,817
Total tier 2 capital	**14,636**	**29,379**
Additional credit loss provisions as per regulatory requirement	(11,902)	(8.814)
Net capital	**141,132**	**141.526**
Risk-weighted assets		
Risk weighted assets and credit equivalents	641,513	570,840
Weighted operational risk	69,265	55,943
Total weighted risks	**710,778**	**626,783**
Net capital relative to total asset risk	**19.9**	**22.6**
Core capital relative to total asset risk	**19.5**	**19.3**

* Pursuant to the new Decision on Minimum Standards for Capital Management and Capital Protection, audited current year profit is included in the core capital in the amount distributed by the Shareholders' Meeting's Decision into the bank capital, so that in the calculation as of December 31, 2014 current profit for the year 2014 was not included in capital calculation (as of December 31, 2013, current profit for 2013 was included in the supplementary capital pursuant to the effective Decision on Capital Adequacy.

NOTES TO THE FINANCIAL STATEMENTS

35. MANAGED FUNDS

The Bank manages funds related to transactions for the account and on behalf of third parties; it records these funds off-balance sheet, separated from its own assets. The Bank charges a fee for managing funds on behalf of third parties. Income and expenses per these funds are posted as income or expenses of the owner or user.

Investments related to the managed funds on behalf of third parties are presented in the table below:

	December 31, 2014 BAM '000	**December 31, 2013 BAM '000**
Consignment investments – MCI	599	730

In 2014, the Bank earned revenues from fees for managed funds in the amount of BAM 95 thousand (2013: BAM 39 thousand),

36. LIABILITIES PER OPERATING LEASE AGREEMENTS

The Bank has commitments for future payments under operating lease contracts. The contracts are related to the lease of the Bank's branch premises and ATMs.

The future minimum lease payments under the aforesaid operating lease contracts are summarized in the table below:

	December 31, 2014 BAM '000	**December 31, 2013 BAM '000**
Up to 1 year	609	526
From 1 to 5 years	1,172	685
Over 5 years	37	27
	1,818	**1,238**

37. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value represents the amount for which some assets can be exchanged or the liability settled between knowledgeable and willing parties in arm's length transactions. It can also be defined as the value at which it is possible to dispose of assets / liabilities, or the appraised value of the neutralization of the market risk which originates from the assets / liabilities in the appropriate time-frame.

Up to January 1, 2014, the Bank had calculated fair value only for loans and deposits with fixed interest rates. The Bank has applied IFRS 13 measurement of fair value for periods which started on January 1, 2014.

Assumptions used in assessing and measuring the fair values of financial instruments, the Bank based on application of centralized calculation developed at the Group level, which uses IFRS 13 as a unique source of guidelines to measure the fair value.

Financial instruments are considered as quoted on an active market if the quoted prices are easily and regularly available and if the prices represent actual and regular market transactions under common market terms.

All financial instruments are classified in accordance with criteria for classification into three different hierarchy levels of fair values.

Hierarchy Level 1: Fair value is determined on the basis of prices for identical assets or liabilities which can be accessed as at the measurement date, i.e. if the financial instruments are present on an active market.

NOTES TO THE FINANCIAL STATEMENTS

37. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

Hierarchy Level 2: Fair value is determined based on valuation model for which input data are taken from an active market when option of inputs used in assessment of Hierarchy Level 1 is excluded.

Hierarchy Level 3: Fair value is determined based on valuation model for which input data are not present on an active market, i.e. when more significant adjustments are needed.

In its methodology, when determining hierarchy levels for performing loans and deposits of banks and customers, the Group uses the following additional criteria:

Hierarchy Level 2: (risk-free rate, i.e., FV risk-free – adjusted rate for credit spread for the expected and unexpected loss, i.e., FV risk adjusted) / risk-free rate or. FV risk-free ≤5%.

Hierarchy Level 3: (risk-free rate, i.e., FV risk-free – adjusted rate for credit spread for expected and unexpected loss, i.e., FV risk adjusted) / risk-free rate or. FV risk-free > 5%.

The Bank classifies default loans (NPL) in accordance with the Group Instructions in such a manner that it equals their carrying and fair values. All assets and liabilities of the Bank are classified into hierarchy level 2 and level 3.

The Bank classifies bonds into Level 2 and the fair value adjustment is performed in accordance with the centralized calculation of the Group.

Fair value of the Bank's assets and liabilities is presented in accordance with IFRS 13 in the table below:

	December 31, 2014				December 31, 2013			
	Fair value	**Carrying value**	**Variance**		**Fair value**	**Carrying value**	**Variance**	
	BAM '000	**BAM '000**	**BAM '000**	**%**	**BAM '000**	**BAM '000**	**BAM '000**	**%**
Held-to-maturity investments	36	36	-	0.0%	105	105	-	0.0%
Loans and receivables due from banks	168,313	168,313	-	0.0%	138,633	138,633	-	0.0%
Loans and receivables due from customers	736,221	704,956	31,265	4.4%	755,343	671,932	83,411	12.4%
Total	**904,570**	**873,305**	**31,265**	**3.6%**	**894,081**	**810,670**	**83,411**	**10.3%**
Deposits and loans due to banks	251,006	249,758	1,248	0.5%	250,969	252,028	(1,059)	(0.4%)
Deposits and loans due to customers	676,153	662,529	13,624	2.1%	536,504	532,881	3,623	0.7%
Total	**927,159**	**912,287**	**14,872**	**1.6%**	**787,473**	**784,909**	**2,564**	**0.3%**

NOTES TO THE FINANCIAL STATEMENTS

37. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

Levels of fair value of Bank's assets and liabilities are presented in accordance with IFRS 13 in the table below:

	December 31, 2014			December 31, 2013		
	Fair value levels			Fair value levels		
	L1	L2	L3	L1	L2	L3
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Held-to-maturity investments	-	-	36	-	-	105
Loans and receivables due from banks	-	168,313	-	-	138,633	-
Loans and receivables due from customers	-	211,203	74,909	-	680,434	74,909
Total	**-**	**379,516**	**75,014**	**-**	**819,067**	**75,014**
Deposits and loans due to banks	-	251,006	-	-	250,969	-
Deposits and loans due to customers	-	676,153	-	-	536,504	-
Total	**-**	**927,159**	**-**	**-**	**787,473**	**-**

38. EVENTS AFTER THE REPORTING PERIOD

Payment of deposits of Bobar Bank in liquidation

From January 19, 2015, under the agreement executed with the Deposit Insurance Agency of Bosnia and Herzegovina, as the agent, i.e., the paying bank, the Bank commenced payment of insured deposits to 21 thousand of depositors of Bobar Bank a.d., Bijeljina in liquidation totaling BAM 86.6 million. Up to these financial statements preparation date the Bank paid out the total of 11,734 depositors in the amount of BAM 74,729 thousand, out of which BAM 70,755 thousand to private individuals (11,214 depositors) and BAM 3,974 thousand to legal entities (520 depositors).

Change to the Bank's Supervisory Board

Majority shareholder, UniCredit Bank Austria AG, initiated in January 2015 the procedure of selection of new composition of the Bank's Supervisory Board due to changes in the Management Board of UniCredit Zagrebačka banka d.d. Zagreb, whose members had term of office in the Bank's Supervisory Board.

The procedure of selection and appointment of new members of the Bank's Supervisory Board is planned to be finished by mid-2015.

Other Events

After the reporting date, there were no events which would require adjustments to the financial statements (corrective events) until the date of their issuance.

39. EXCHANGE RATES

The official exchange rates applied in translation of the statement of financial position components denominated in foreign currencies into BAM as at December 31, 2014 and 2013 for the following more significant currencies were:

	December 31, 2014	December 31, 2013
USD	1.608413	1.419016
CHF	1.626064	1.595424
EUR	1.955830	1.955830