



Annual Report 2013

SARAJEVO
BUSINESS
FORUM '13



BBI, SOCIALLY RESPONSIBLE BANK

BEST WORLD PRACTICES FOR BOSNIA AND HERZEGOVINA

BBI bank, in cooperation with the Islamic Development Bank (IDB), has organized and hosted the Fourth International Investment Conference - Sarajevo Business Forum - under the theme "Models of growth and lessons for Southeast Europe." It was held on 17th May this year.

The conference, which attracts regional and global attention and has gathered more than 1300 participants from 40 countries over the last four years, was exceptionally well attended this year. Hotel Holiday's Congress Hall was packed with more than 500 regional and international participants. In addition, over 230 accredited local and foreign journalists attended the Conference in order to record and transmit the experience and advice of the eminent world leaders: Tun dr. Mahathir Mohammad, the 4th Prime Minister of Malaysia, Ali Babacan, the Deputy Prime Minister of Turkey, Danilo Turk, the Former President of Slovenia and Obaid Humaid Al Tayer, the State Minister for Finance of the United Arab Emirates.

"This year we will have the honour to listen to elaborations of successful lifetime leaders who are going to share their experiences on bringing one country to prosperity and leading it towards success. The experiences of Malaysia, Turkey, the UAE and Slovenia are each specific in themselves but somehow common for our Country. We hope that all of us can benefit from their elaborations in one way or another, and that we will leave this Conference hall with new ideas." said the CEO of BBI Bank Mr. Amer Bukvić, addressing the guests, investors, businessmen and senior officials at the opening ceremony.

"Thanks to the hard working team of organizers, headed by Mr. Amer Bukvić, Bosnia and Herzegovina and its capital became an attractive place for investors from around the world, and this forum has grown into a nice tradition. We meet here in Sarajevo, an open, cosmopolitan city of happiness, and we will certainly meet again in the future, in order to share experiences and ideas, and agree on projects in the interests of our countries and people who have given us confidence. Bosnia and Herzegovina has all the prerequisites to be an equal member of the European family of states. Comparatively speaking, we have even a number of potential advantages compared to many European countries." said H.E. Bakir Izetbegovic, a member of the B&H Presidency and the patron of the Sarajevo Business Forum 2013 at the opening ceremony.

Dr. Nasser Saidi, Member of the Regional Advisory Group of the MMF for the MENA region and Former Minister of Economy of Lebanon, talked about ways of attracting foreign direct investment. The importance of infrastructure for the arrival of investors and the development and progress of a society was the theme of Libor Krkoška, Director of the BH Office of the European Bank for Reconstruction and Development (EBRD). Nebojša Arsenijević, Manager for Renewable Energy for the Balkans at the International Finance Corporation (IFC) - a Member of the World Bank, spoke about the experiences of Southeast Europe as well as about the energy sector, a field in which foreign investors show the greatest interest. Sabri Er, the Expert of the Development Agency in Ankara, talked about the best ways to utilize agricultural potential. The tourism industry and guidelines for the development of this sector were the main topics of Esencan Terzibasoglu from the World Tourism Organization (UNWTO). Christian Schwarz-Schilling, the Former German Minister and Former High Representative in Bosnia and Herzegovina, presented the experiences of Germany, a country that has in time of economic crisis remained the backbone of European economy. Schwarz-Schilling underlined the importance of continuous investments in science and development. Businessmen also had the opportunity to hold 100 B2B meetings during the Conference.

Sarajevo Business Forum is one of many BBI socially responsible engagements. SBF has become the platform for business networking and investments in Southeast Europe and a brand model to follow.



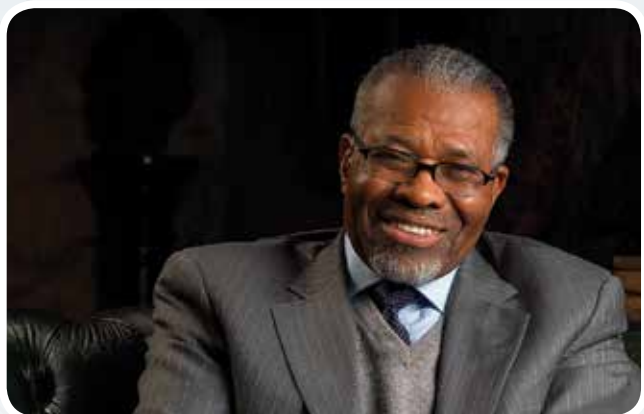
Skilful Bosnian hands

Photo by: Dženat Drekočić

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STATEMENT BY THE CHAIRMAN OF THE GENERAL ASSEMBLY OF THE BANK OF BOSNA BANK INTERNATIONAL (BBI)



Chairman of the General Assembly of BBI

It gives me great pleasure to present the Bosna Bank International financial statements for 2013 to all stakeholders in Bosnia Herzegovina and abroad.

In spite of many challenges in global and local economies and financial markets, 2013 was another successful business year of growth and further strengthening for BBI. The Bank has made a substantial progress in recent years as a result of its adherence to the healthy principles of Islamic financing, support from its Shareholders and dedication of the Bank's staff.

Since the beginning of its operations Bosna Bank International has been providing support to the economy of Bosnia and Herzegovina. The Bank will continue to exert utmost efforts in the future to realize its overall vision of fostering economic development and social progress in Bosnia and Herzegovina.

I am particularly pleased to note that BBI continues to win the trust and confidence of the market and business community and thereby remains a well recognizable and distinguished corporate citizen in Bosnia and Herzegovina. As reflected by its operating results, the Bank has maintained the path of expansion and growth across all business segments. In ad-

dition, BBI has continued its corporate social responsibility activities by serving communities and providing education opportunities through its scholarship scheme. Contributing to higher education will continue to be one of the priorities in future as well.

As part of the corporate social responsibility program, BBI, in cooperation with its shareholders, successfully organized Sarajevo Business Forum (SBF) for the fourth time. The Forum continues to be a solid platform for business networking and promotion of investment opportunities in the Southeast Europe. In 2013, SBF hosted more than 1,000 participants which was the highest attendance since its inception. This proves that SBF is already perceived as an important bridge between our partners from the Southeast Europe and investors from the Gulf and the Far East, and a leading force for economic development and entrepreneurship.

Bosna Bank International has been operating in Bosnia and Herzegovina for thirteen years now, enhancing its scope of Islamic banking operations and proving that Islamic banking principles are ethical, universal and serving the common good of humanity.

The BBI Shareholders are pleased to express their appreciation to the management and the staff of BBI for the accomplished results as well as to Bosnia and Herzegovina's authorities and the public for their generous support to the Bank.

The BBI Shareholders are committed to continue their strong backing of the Bank with the aim of contributing to the socio-economic development of Bosnia and Herzegovina. We hope that, with the help of Allah the Almighty and support of all shareholders, the Bank will further increase its potential and remain the Islamic banking industry hub in Southeast Europe.

Dr. Ahmad Mohamed Ali

STATEMENT BY THE CHAIRMAN OF THE SUPERVISORY BOARD OF THE BANK



Chairman of the
Supervisory Board of BBI

On behalf of the Supervisory Board of Bosna Bank International, it is my pleasure to present you the results and business achievements of Bosna Bank International in 2013.

In this year BBI continued to grow in all of its business segments. Additionally, even though the economic slowdown in the country and the Southeast Europe region is still present and largely influencing creation of new business opportunities, BBI supported most prospective projects and invested efforts in attracting foreign direct investments to Bosnia and Herzegovina through the annual Sarajevo Business Forum. The Bank focused on supporting and attracting investments into major industrial sectors such as agriculture, tourism, energy, infrastructure and real estate.

In comparison with the previous year, BBI recorded significant growth in all its business lines. Total assets grew by 31% supported by a 24% growth in financing. The most important driver of the 24% deposits growth was the retail deposits which grew by 34%. Total revenues increased by 7% and net profit by 13%. Even though BBI increased its financing volumes in times of an economic slowdown, its non-performing loans continue to be lower than the market average. These impressive results came on the back of prudent

business decisions along with stringent risk management practices. The Bank also continued its branch expansion and it now has 25 branches throughout the country.

The banking sector in Bosnia and Herzegovina remained stable and liquid, however slower economic growth caused continued decrease in liquidity. The Bank's capital adequacy ratio remained at a high level and it is significantly higher than the law prescribed level, however, the continued deterioration of the credit portfolio quality negatively impacted the overall profitability in 2013.

By developing and utilizing its internal strengths, the Bank continued to support its clients. Through BBI VIP Business Club, the Bank also facilitated corporate clients in growing their business outside the country. By hosting and fostering relationships between local businessmen and business partners from emerging economies, BBI has been effectively recognized as an engine of Bosnia's external business development. The Bank's educational arm - BBI Academy, contributed towards enhancement of the overall business effectiveness as it focused on specialization of Bank's staff as well as building public awareness about the core values and benefits of Islamic banking. BBI Bank is very proud of the fact that it awarded more than 550 scholarships to university students with lower household income, particularly those who demonstrated interest in research and innovation in the Islamic banking and finance industry.

BBI has left a strong impact in the market by delivering value for its stakeholders and has become a recognizable brand not only in Bosnia and Herzegovina but also internationally. The level of staff engagement has augmented and our approach to corporate social responsibility gained increasing recognition.

I would like to take this opportunity to thank BBI's Shareholders, Board Members, the management of the Bank and all its staff for the extraordinary efforts put into making BBI a success, as well as our clients for their continued support.

A handwritten signature in black ink, appearing to read 'Abdulaziz Ahmed Al Muhairi'.

Abdulaziz Ahmed Al Muhairi

STATEMENT BY THE DIRECTOR GENERAL/CEO OF THE BANK



On behalf of the management of Bosna Bank International, I would like to take this opportunity to express my deep respect and gratitude to all our valued clients, business partners and associates for staying loyal and committed partners of BBI in 2013. With your support and loyalty, in the last year, BBI has positively dealt, achieved good business results and has increased the market participation in almost all segments of operations. Due to extraordinary efforts of BBI management team and a hard work on the part of our diligent employees across various sectors, BBI continued growth in all of its business segments.

Respected clients, business partners and associates, it is therefore my great pleasure to briefly present to you the results of BBI in the previous year in comparison to the year before (2012):

- Growth of total assets by 31%
- Growth of total financings by 24% with retail financings growth of 26% and corporate financings growth of 23%
- Increase of total deposits by 24% with retail deposits growth of 34% and corporate deposits growth of 18%
- of total revenues by 7%
- Increase of net profit by 13%.

Being committed to contributing to the socio-economic development of Bosnia and Herzegovina, BBI continued supporting the economy of the Country and put even more effort in attracting foreign direct investments by organizing 4th Sarajevo Business Forum but also during regular activities of its VIP Business Club. In 2013, Sarajevo Business Forum was held under the theme "Models of growth and les-

sons for Southeast Europe." We had honour to listen to elaborations of successful lifetime leaders: Tun dr. Mahathir Mohammad the 4th Prime Minister of Malaysia, Ali Babacan the Deputy Prime Minister of Turkey, Danilo Turk the Former President of Slovenia and Obaid Humaid Al Tayer the State Minister for Finance of the United Arab Emirates, who shared their experiences on bringing one country to prosperity and leading it towards success. The experiences of Malaysia, Turkey, the UAE and Slovenia are each specific in themselves but somehow common for our Country. The Forum hosted more than 1,300 participants and supported Sarajevo in getting closer to becoming the economic centre of the region.

Besides Sarajevo Business Forum, BBI focused its social responsibility projects also through providing scholarships for students. While believing that the prosperity of the Country lays in educated population, BBI with the support of Sheikh Saleh Kamel Foundation, Abu Dhabi Finance House and from its own sources distributed more than 650 scholarships amounting to approx. EUR 500 thousand. BBI is dedicated to continue this unique trend with the noble support from our partners.

In 2013, BBI Academy achieved amazing results and conducted record numbers. 42 seminars, 28 lecturers and trainers and 425 employees attended it for gaining valuable knowledge and broadening perspectives. Most seminars were led by BBI internal experts. For some specific topics, BBI Academy engaged distinguishes university professors and experts from other institutions.

Last year, Bosna Bank International has been elected for the third consecutive year as "the Most Desirable Employer in Bosnia and Herzegovina" in the financial – insurance sector. BBI was again rewarded for its constant improvement, hard work, positive contribution to the State's economy and business environment and socially responsible projects.

We are motivate, enthusiastic and positive that the growth trend will continue in 2014, God willing. Bosna Bank International will continue striving towards perfecting its products and services for the benefit of its clients.

I would like to thank the staff of BBI, our clients and all our business partners for their confidence over the years.

AMER BUKVIĆ

BBI MANAGEMENT

MISSION:

To make Islamic banking principles more comprehensible, to promote Islamic banking products in B&H and to become the leading bank in the Region in providing support and facilitating business cooperation between BH businessmen and the OIC member countries.



Amer Bukvić
Director General



Vildana Škaljić
Executive Director



Emir Čehajić
Executive Director



Mirza Spahić

Director of Legal
Division



Ganiba Adilović

Acting Director of
Strategic Planning
and Financial Control
Division



Muhamed Prlja

Director of Retail
Banking Division



Semir Ibrahimović

Director of IT
Division



Salih Purišević

Secretary General
of the Bank



Muhiba Muratović

Director of
Operations
Division



Mirsada Čengić

Director of
Treasury and FI
Division



Samir Suljević

Director of HR and
Administration
Division



Nusreta Pidro

Director of
Credit and Market
Risk Management
Division



Enver Redžović

Chief Internal
Auditor



Azra Čolić

Director of
Corporate Banking



REPORT OF THE MANAGEMENT BOARD

The Management Board has pleasure in submitting its report together with the audited financial statements for the year ended 31 December 2013.

Review of operations

The result for the year ended 31 December 2013 of the Bank is set out in the income statement on page 14.

Supervisory Board, Audit Board, Sharia'h Board and Management Board

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

Supervisory Board:

Abdul Aziz Ahmed Al-Muhairi	President
Mazin Ahmed Al Ghunaim	Vice President
Hamza Afif Taha	Member
Sharol A Razar	Member
Kamil Gokhan Bozkurt	Member

Audit Board:

Harun Kapetanović	President
Abdul Hakim Kanan	Vice President
Abdallah Saleh Abu Khajil	Member
Mehmet Kamil Tumer	Member
Edin Brkić	Member

Sharia'h Board:

Prof. Dr. Mustafa Cerić	President
Dr. Abdulsattar Abu Ghuddah	Vice President
Dr. Nizam Al-Yaqobi	Member
Dr. Šukrija Ramić	Member
Saleh Michael Gassner	Member

Management Board:

As of 31 December 2013 the Management Board comprised director and 2 executive directors. The persons who served as executive directors

On behalf of the Management Board



Amer Bukvić
Director general/CEO

RESPONSIBILITY OF THE MANAGEMENT AND SUPERVISORY BOARD FOR THE PREPARATION AND APPROVAL OF ANNUAL FINANCIAL STATEMENTS



The Management is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Bank and of the results of its operations and cash flows, in accordance with statutory requirements for banks in the Federation of Bosnia and Herzegovina, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The Management is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; making judgements and estimates that are reasonable and prudent; and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management is responsible for the submission to the Supervisory Board of its annual report on the Bank together with the annual financial statements,

following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

The financial statements set out on pages 20 to 92 were authorised by the Management Board on July 18th, 2014 for issue to the Supervisory Board and are signed below to signify this.

Signed on behalf of the Management Board:

Amer Bukvić
CEO

Vildana Škaljić
Executive Director

Bosna Bank International d.d.
TrgDjeceSarajeva bb
71000 Sarajevo
Bosnia and Herzegovina

July 18th, 2014



INDEPENDENT AUDITORS' REPORT

To the shareholders of Bosna Bank International d.d.

We have audited the accompanying financial statements of Bosna Bank international d.d. Sarajevo ("the Bank") which comprise the statement of financial position as of 31 December 2013 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give true and fair view in accordance with the Law on Accounting and Auditing in the Federation of Bosnia and Herzegovina, Law on Banks and the Federal Banking Agency Decisions ("the FBA") and Note 2.1 to these financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance that 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 judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Bank's preparation of financial statements that give true and fair view 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 controls. 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 accompanying financial statements present fairly, in all material aspects, the financial position of Bosna Bank International d.d. Sarajevo as at 31 December 2013 and of its financial performance and cash flows for the year then ended in accordance with the Law on Accounting and Auditing in the Federation of Bosnia and Herzegovina, Law on Banks and the FBA Decisions and Note 2.1 to these financial statements.

PricewaterhouseCoopers d.o.o. Sarajevo



Alida Selimović, Certified auditor

Sarajevo, 31 May 2014



STATEMENT OF COMPREHENSIVE INCOME

(All amounts are given in BAM '000, unless otherwise stated)

	Note	2013	2012
Income from operations with banks (Murabaha, Wakala) and from financing retail and corporate sector (Musharaka and Ijara)	5	22,565	20,149
Expenses in respect of amounts due to customers and to banks (Wakala)	5	(9,109)	(7,604)
Net income from financing and investments		13,456	12,545
Net impairment losses and provisions	10	(955)	(1,602)
Net income from profit margin after provision for impairment		12,501	10,943
Fee and commission income	6	6,547	5,755
Fee and commission expense	6	(1,126)	(965)
Net financial gains	7	549	410
Other operating income		451	306
Personnel expenses	8	(8,391)	(7,940)
Depreciation expenses	20, 21	(1,161)	(1,168)
Other operating expenses	9	(6,154)	(4,501)
Collected written-off receivables	11	95	83
Profit before income taxes		3,311	2,923
Income tax expense	12	(339)	(299)
Net profit for the year		2,972	2,624
Basic earnings per share (in BAM)	28	4.06	4.42

Notes on pages 20 to 92 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

(All amounts are given in BAM '000, unless otherwise stated)

	Note	31 December 2013	31 December 2012
ASSETS			
Cash and balances with banks	13	147,743	91,805
Cash and the balances with the Central Bank of Bosnia and Herzegovina	14	27,087	22,333
Placements to banks	15	36,787	33,395
Financial assets available for sale	16	45	45
Financial assets at fair value through profit or loss	17	542	419
Financing of customers	18	334,037	267,837
Other assets	19	5,221	2,008
Property and equipment	20	9,532	8,790
Intangible assets	21	802	920
TOTAL ASSETS		561,796	427,552
LIABILITIES			
Due to banks	23	35,276	35,277
Due to customers	22	357,690	281,413
Borrowings	24	77,604	52,630
Other liabilities	25	3,334	3,071
Provisions for liabilities and charges	26	758	999
TOTAL LIABILITIES		474,662	373,390

Notes on pages 20 to 92 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

(All amounts are given in BAM '000, unless otherwise stated)

SHAREHOLDERS' EQUITY			
Share capital	27	80,059	50,059
Statutory reserves		1,739	713
Retained earnings		5,336	3,390
TOTAL EQUITY		87,134	54,162
TOTAL EQUITY AND LIABILITIES		561,796	427,552

Notes on pages 20 to 92 form an integral part of these financial statements.

Board of Directors of the Bank has authorised these financial statements on 4 March 2014, and they are hereby signed by:



Director General/CEOBank, Amer Bukvić



Executive Director, Vildana Škaljić

STATEMENT OF CHANGES IN EQUITY

(All amounts are given in BAM '000, unless otherwise stated)

	Share capital	Statutory reserves	Retained earnings	Total
Balance as at 31 December 2011	50,059	405	1,074	51,538
Allocation of the profit from 2011	-	308	(308)	-
Profit for the year	-	-	2,624	2,624
Balance as at 31 December 2012	50,059	713	3,390	54,162
Allocation of the profit from 2012	-	1,026	(1,026)	-
Increase in share capital	30,000	-	-	30,000
Profit for the year	-	-	2,972	2,972
Balance as at 31 December 2013	80,059	1,739	5,336	87,134

Notes on pages 20 to 92 form an integral part of these financial statements.

CASH FLOW STATEMENT

(All amounts are given in BAM '000, unless otherwise stated)

	Note	2013	2012
Cash flow from operating activities			
Profit for the year		3,311	2,923
<i>Adjusted for:</i>			
Depreciation and amortization	20, 21	1,161	1,168
Loss on disposal of property and equipment		43	-
Net impairment losses and provisions		955	1,642
Provisions for employee benefits		-	(40)
Fair value adjustment		(107)	(13)
Adjustments for cash-flows from investing and financing activities		(21)	-
Cash flow from operating activities before changes in operating assets and liabilities		5,342	5,680
Increase in obligatory reserve with the Central Bank		(4,754)	(1,889)
(Increase) / decrease in placements with banks		(3,394)	5,981
Increase in financing of customers		(66,717)	(67,931)
(Increase) / decrease in other assets		(3,918)	985
Increase in income tax prepayments		-	(236)
Decrease in amounts due to banks		(1)	(11)
Increase in amounts due to customers		76,277	49,680
Increase / (decrease) in other liabilities		263	(231)
		3,098	(7,972)
Income tax paid		(299)	(78)

CASH FLOW STATEMENT

(All amounts are given in BAM '000, unless otherwise stated)

NET CASH FROM / (USED IN) OPERATING ACTIVITIES		2,799	(8,050)
Investing activities			
Purchase / (disposal) of financial assets at fair value through profit and loss		(16)	25
Purchase of property and equipment		(1,840)	(1,003)
Purchase of intangible assets		-	(943)
Dividends received		21	12
NET CASH USED IN INVESTING ACTIVITIES		(1,835)	(1,909)
Financing activities			
Paid in capital		30,000	-
Increase in borrowings		24,974	39,358
NET CASH FROM FINANCING ACTIVITIES		54,974	39,358
Net increase in cash and cash equivalents		55,938	29,399
Cash and cash equivalents at the beginning of the year		91,805	62,406
Cash and cash equivalents at the end of the year	13	147,743	91,805

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

1. GENERAL INFORMATION

Bosna Bank International d.d. (BBI Bank) was registered on 19 October 2000 as the first bank in Europe which operates on the principles of Islamic banking.

On the 13 March 2002 the Bank obtained a license for domestic payment transactions from the Banking Agency of the Federation of Bosnia and Herzegovina, and in November the same year the Bank obtained a license for insurance of deposits.

The Bank made its first transaction in the beginning of 2001.

The main activities of the Bank include providing the following banking services:

1. financing legal entities and physical persons,
2. receiving and placing of deposits,
3. activities in inter-bank market,
4. buying and selling of foreign currencies, and
5. other banking services.

The shareholders of the Bank are:

	31 December 2013		31 December 2012	
	Amount	%	Amount	%
Islamic Development Bank, Saudi Arabia	36,393	45.46	22,755	45.46
Abu Dhabi Islamic Bank, United Arab Emirates	21,833	27.27	13,652	27.27
Dubai Islamic Bank, United Arab Emirates	21,833	27.27	13,652	27.27
Total	80,059	100.00	50,059	100.00

The address of its registered office is Trg Djece Sarajeva bb, 71000 Sarajevo, Bosnia and Herzegovina.

Employees

As of 31 December 2013 Bosna Bank International employed 279 persons 2012: 247 employees).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

1. GENERAL INFORMATION (continued)

Supervisory Board

President	Abdul Aziz Ahmed Al Muhairi
Vice President	Mazin Ahmed Al Ghunaim
Member	Hamza Afif Taha
Member	Sharol A Razar
Member	Kamil Gokhan Bozkurt

Audit Board

President	Harun Kapetanović
Vice President	Abdul Hakim Kanan
Member	Abdallah Saleh Abu Khajil
Member	Mehmet Kamil Tumer
Member	Edin Brkić

Sharia'h Board

President	Prof. Dr. Mustafa Cerić
Vice President	Dr. Abdulsattar Abu Ghuddah
Member	Dr. Nizam Al-Yaqoobi
Member	Dr. Šukrija Ramić
Member	Saleh Michael Gassner

Management Board

Director	Amer Bukvić
Executive director	Vildana Škaljić
Executive director	Emir Čehajić

Secretary of the Bank

Salih Purišević

1.1 Financial crisis impact

Recent volatility in global and Bosnia and Herzegovina financial markets

Global economy is in a stabilization phase after years of tumultuous period. Global economic growth is recovering, fronted by developed economies. However, in several European countries serious problems are still present, especially in the segment of public finance. In the region the biggest concern is continued growth of non-performing loans in the banking sector. Low interest rates on world markets caused by monetary policy and central bank activities remained in 2013.

The recovery of economic growth in leading European economies had a positive influence on the growth of export and industrial production in Bosnia and Herzegovina. However, it was not enough to give to give an incentive to the growth of gross domestic product, which was very modest. During 2013, the banking sector in Bosnia and Herzegovina recorded a continued decline in the quality of the credit portfolio, which had a negative influence on profitability of the banking sector.

The banking sector remained stable and liquid, however slower economic growth caused continued decrease in liquidity, as well as further reduction in deposits and borrowings at foreign banks. The growth of household savings is highest in the last few years, which had positive effect on liquidity. The Bank's capital adequacy ratio remained at a high level and it is significantly higher than the law prescribed level, however, the continued deterioration of the credit portfolio could negatively impact the capitalization of the sector in the future.





NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

1. GENERAL INFORMATION (continued)

As a result of the analysis in December 2013 Moody's Investors Service rating agency has published an annual report on credit rating of Bosnia and Herzegovina, according to which the sovereign credit rating remained the same "B3 with a stable outlook". Standard & Poor's rating agency affirmed the Bosnia and Herzegovina sovereign credit rating of "B with a stable outlook" in September 2013. Rating of Bosnia and Herzegovina is under the influence of a complex political system, unexploited potential, large current account deficit and trade deficit, and high unemployment. In the political context, the country's constitution became a brake for effective governing of the country, and its changes are the subject of inter-ethnic disputes. Therefore the country slowed down with fulfilment of the conditions for integration into the European Union.

Although the impact of the economic and financial crisis cannot be fully predicted, the Bank's Management believes that all necessary measures have been taken in order to support the sustainability and growth of the Bank in the current circumstances.

Impact on liquidity

In order to overcome financial issues caused by economic and financial world crisis and to maintain the liquidity, the Bank has increased monitoring of liquidity risk, and it has updated and adjusted liquidity plans in accordance with the current situation. The Bank managed to achieve indicators in segment of liquidity, which are significantly above the average of bank sector.

The Management of the Bank believes that it will continue to manage liquidity risk in a satisfactory way by considering it as a permanent obligation and a basic assumption for the sustainability on the financial market.

Impact on customers/borrowers

The most important measures and actions in order to minimize the impact of the financial crises on the Bank's successful operations in lending are the following:

- Selective approach to all customers who have shown to be sensitive to the crisis;
- Rescheduling of finance obligations with a delay up to 90 days in accordance with the decisions of the Federal Banking Agency;
- Stronger monitoring in the early stages of delayed financing obligations,
- Regular Group meetings in order to monitor the collection of financing claims.

The Bank monitors and analyses the status and the quality of the credit portfolio and in accordance with requirements takes appropriate measures. The analysis of risk of every new placement and collection of matured claims has been intensified. The overall monitoring and tracking of clients has been enhanced, especially clients with a higher level of investments. During 2013 the Bank was performing a review and a detailed assessment on a monthly basis, as well as classification of each individual financing.

The amount of provision for impaired financing of customers is based on management's appraisals of these assets at the reporting date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The market in Federation of BiH for many types of collaterals, especially real estate, has been severely affected by the recent volatility in global financial markets resulting in lower liquidity for some types of assets. As a result, the actual realizable value on foreclosure may differ from the value described in estimating allowances for impairment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

1. GENERAL INFORMATION (continued)

Impact on collateral (especially real estate)

In the course of its business activities, the Bank uses a pledge over assets, as one of the most common elements for ensuring the collection of receivables from clients. In accordance with the Instructions for the use of collaterals, the Bank takes pledges over immovable assets, with a ratio 1.5 to 2 times higher than the value of receivables and 2 to 3 times higher than the value of the claims, depending on if the Bank's claim is covered only by movables.

The Bank regularly follows movement of the market value of collateral. Market value of pledged property is monitored by the Bank by repeated re-assessment of market value of property by official court valuator once in a year or an internal assessment by an authorized officer of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis for preparation and presentation of financial statements

These financial statements have been prepared under the Law on Accounting and Auditing of the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of Bosnia and Herzegovina, no. 83/09), the Law on Banks and Federal Banking Agency (hereinafter: FBA) decisions. Based on the Law on Accounting and Auditing of the Federation of Bosnia and Herzegovina, standards applied in the Federation of Bosnia and Herzegovina are International Accounting Standards (IAS) and Inter-

national Financial Reporting Standards (IFRS), which are translated into Bosnian language by the authorised accounting body.

The Bank applies all the IAS and IFRS and the amendments and interpretations which were published by the International Federation of Accountants (IFAC) and the International Accounting Standards Board (IASB) and translated into Bosnian in the Federation of Bosnia and Herzegovina ("FBiH") as of 31 December 2009. Therefore, these financial statements do not comply with all requirements of IFRS.

Standards and interpretations published and not yet translated and adopted

The Bank has not adopted the following standards, amendments and interpretations, which are effective but which were not adopted by the Bank because they are not translated and published:

- Amendments to IFRS 1 "First-time adoption of IFRS" - Additional exemptions for first-time adopters (effective for annual periods beginning on or after 1 January 2010);
- Amendments to IFRS 2 "Share-based Payments" - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010);
- Amendments to IAS 32 "Financial instruments: presentation" - Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010);
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis for preparation and presentation of financial statements (continued)

for annual periods beginning on or after 1 January 2010, while the amendment to IFRIC is to become effective as of 1 July 2010);

- Amendments to IFRS 1 “First-time adoption of International Financial Reporting Standards” - Limited exemption from comparative IFRS 7 disclosures for first-time adopters (effective for annual periods beginning on or after 1 July 2010);
- IFRIC 19 “Extinguishing financial liabilities with equity instruments” (effective for annual periods beginning on or after 1 July 2010).
- “Conceptual framework for financial reporting 2010” being an amendment to the “Framework for the preparation and presentation of financial statements” (effective for transfer of assets from customers received on or after September 2010);
- Amendments to IAS 24 “Related party disclosures” - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011);
- Amendments to various standards and interpretations “Improvements to IFRSs” resulting from the Annual quality improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2011);
- Amendments to IFRIC 14 “IAS 19 - The limit on a defined benefit asset,

minimum funding requirements and their interaction” - prepayments of a minimum funding requirement (effective for annual periods beginning on or after 1 January 2011);

- Amendments to IFRS 1 “First-time adoption of IFRS”- Severe hyperinflation and removal of fixed dates for first-time adopters (effective for annual periods beginning on or after 1 July 2011);
- Amendments to IFRS 7 “Financial instruments: disclosures”- Transfers of financial assets (effective for annual periods beginning on or after 1 July 2011);
- Amendments to IAS 12 “Income taxes” - Deferred tax: recovery of underlying assets (effective for annual periods beginning on or after 1 January 2012);
- Amendments to IAS 1 “Presentation of financial statements” - Presentation of items of other comprehensive income (effective for annual periods beginning on or after 1 July 2012);
- Amendments to IAS19 “Employee benefits”- Improvements to the accounting for post-employment benefits (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 1 “First-time adoption of International Financial Reporting Standards” -Government loans (effective for annual periods beginning on or after 1 January 2013);
- Amendment to IFRS 7 “Financial instruments: Disclosures” on asset and liability offsetting (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 10, IFRS 11 and IFRS 12 “Consolidated financial statements, joint arrangements and disclosures of interests in other entities: transition guidance” (effective for annual periods beginning on or after 1 January 2013);
- Annual improvements 2011 (2009 - 2011 cycle issued in May 2012) including changes to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34 (effective for annual periods beginning on or after 1 January 2013);

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis for preparation and presentation of financial statements (continued)

- IFRS 10 "Consolidated financial statements" (effective for annual periods beginning on or after 1 January 2013);
- IFRS 11 "Joint arrangements" (effective for annual periods beginning on or after 1 January 2013);
- IFRS 12 "Disclosures of interests in other entities" (effective for annual periods beginning on or after 1 January 2013);
- IFRS 13 "Fair value measurement" (effective for annual periods beginning on or after 1 January 2013);
- IAS 27 (revised in 2011) "Separate financial statements" (effective for annual periods beginning on or after 1 January 2013);
- IAS 28 (revised in 2011) "Investments in associates and joint ventures" (effective for annual periods beginning on or after 1 January 2013); and
- IFRIC 20 "Stripping costs in the production phase of a surface mine" (effective for annual periods beginning on or after 1 January 2013).

Standards and interpretations in issue but not yet effective

At the date of issuance 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 1 January 2015);
- Amendments to IFRS 9 "Financial instruments" and IFRS 7 "Financial instruments: disclosures" -Mandatory effective date and transition disclosures (effective for annual periods beginning on or after 1 January 2015);
- Amendments to IFRS 10, IFRS 12 and IAS 27 - Exemption from consolidation of subsidiaries under IFRS 10 'Consolidated financial statements' (effective for annual periods beginning on or after 1 January 2014);
- Amendment to IAS 32 "Financial instruments: Presentation" – on asset and liability offsetting (effective for annual periods beginning on or after 1 January 2014);
- Amendment to IAS 36 "Impairment of assets" on recoverable amount disclosures (effective for annual periods beginning on or after 1 January 2014);
- Amendment to IAS 39 "Financial instruments: recognition and measurement"- Novation of derivatives (effective for annual periods beginning on or after 1 January 2014); and
- IFRIC 21 "Levies" (effective for annual periods beginning on or after 1 January 2014).

The Bank did not estimate the potential effect of the new standards and interpretations on the financial statements, given that the date of implementation in Bosnia and Herzegovina is unknown.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis for preparation and presentation of financial statements (continued)

Definitions

The following terms for Islamic financial instruments are used in the financial statements with the meaning specified:

Murabaha

An agreement whereby the Bank sells to a customer a commodity or asset, which the Bank has purchased and acquired based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit.

Musharaka

An agreement between the Bank and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared according to the agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise.

Wakala

An agreement whereby one party provides a certain sum of money to an agent, who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

Ijara

Ijara is an agreement whereby the bank purchases certain property or equipment which is then leased to the customer.

Financial statements are based on historical costs except for financing of clients who are carried at amortized cost and financial assets at fair value through the income statement at fair value.

2.2. Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the mean exchange rates of the Central Bank of Bosnia and Herzegovina prevailing at the latest date of reporting period.

Foreign currency monetary assets are denominated at the official exchange rate at the balance sheet date. If multiple exchange rates are available, forward rates are used, by which the future cash flow related to that transaction could be settled, in case they occurred. Non-monetary assets and items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2. Foreign currency transactions (continued)

Exchange rates used in financial reports are the official rates established by the Central Bank of Bosnia and Herzegovina ("CBBH"). On 31 December the following exchange rates were used:

Exchange rate	2013	2012
	BAM	BAM
USD	1.4190	1.4836
EUR	1.9558	1.9558

2.3. Income from operations with clients

Net income from financing represents the Bank's share in income generated through investments of clients' assets that the Bank gave on disposal after deduction of expenses related to collection of invested assets.

Murabaha and Wakala

Income is recognized during validity period of contracts, having in mind effective profit margin.

Musharaka and Ijara

Income is calculated using effective profit rate to the declining principal amount.

In accordance with principles of Islamic banking, amounts held by clients in bank and deposit accounts can be used as one of sources for financing Musharaka projects, and expenses related to those deposit accounts are recognized as expenses related to Musharaka transactions.

In accordance with Sharia regulations, the Bank cannot generate income from interest rate. All realized penalties are donated to charity.

2.4. Fee and commission income and expense

Fees and commissions are generally recognized on an accrual basis when the service has been provided to the client. Fee and commission income includes all income from the provision of services to clients.

Fees for approval of financing and guarantees are since 2011 charged in advance, while the revenue is accrued on an effective profit margin basis. Fee and commission income relate to local and international payment operations, income from off-balance sheet operations (issuing guarantees), brokerage and dealing operations.

Fee and commission expenses relate to fees paid to the Central Bank of Bosnia and Herzegovina for the local payments operations, SWIFT costs, costs of card business, fees paid to the FBA for supervision of the banking sector.

Fee and commission expenses are recognized in the period when they occurred.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

2.6. Income tax

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

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

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

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Bank has the ability and intention to settle on a net basis.

2.7. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, financing of customers and advances to banks. In the statement of financial position, cash and cash equivalents comprise of the following items: cash in hands in local and foreign currencies, held within the Bank's vault and cashier's offices, mandatory reserve with the CBBH.

2.8. Financial assets

Financial assets arise from financing operations, foreign exchange operations, deposits, payments operations, acting as intermediary in securities trading, purchase and collection of receivables and from providing other banking services.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8. Financial assets (continued)

The Bank classifies its financial assets in the following categories: financing of customers and receivables, financial assets at fair value through profit or loss, financial assets available-for-sale and financial assets held to maturity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs of inventories.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued profit margin, and for financial assets less any write-down for incurred impairment losses. Accrued profit margin includes amortization of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective profit margin method. Accrued profit margin income and accrued profit margin, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective profit margin is a method of allocating profit margin income or profit margin over the relevant period, so as to achieve a constant periodic rate of profit margin (effective profit margin) on the carrying amount. The effective profit margin is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective profit margin discounts cash flows of variable profit margin instruments to the next profit repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective profit margin.

Financial assets available for sale. Financial assets available for sale are all other that are not classified in three other groups. Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in profit margins, exchange rates or equity prices or that are not classified as financing of customers and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Financial assets available for sale are initially recognized at cost. These assets are subsequently measured at fair value and difference is recognized as other comprehensive income in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in equity and other comprehensive income.

In case of de-recognition of assets available for sale, the cumulative gain or loss previously recognized in equity is transferred to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8. Financial assets (continued)

Financial assets at fair value through profit and loss. Financial assets at fair value through profit and loss has two categories: financial instruments held for trading (including derivatives) and those placed by the Management in this category. Financial instruments are placed in this category if they were made or acquired for the purpose of sale or purchase within short period of time, for the purpose of short term gain acquisition, or by the Management's decision.

Financial assets stated at fair value through income statement are recognised by the Bank on date of trading with those assets.

Financial assets at fair value through profit and loss are initially recognised at fair value. All transaction costs are immediately recognised in income statement. Subsequent measurement is also carried at fair value.

Liabilities for taken loans and other borrowings. Liabilities for taken loans are initially recognised at the agreed amount, which is amount that was actually received. Such liabilities are stated at amortised cost, and all consequent transaction costs are recognised in the income statement of the current period.

Determination of fair value

The fair value of financial assets and liabilities at fair value through profit or loss and financial assets available for sale is their quoted bid market

price at the reporting date without any deductions for selling costs. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reason, the fair value cannot be reliably measured by market price, the Bank establishes fair value by using valuation techniques. These include the use of prices achieved in recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate related to the reporting date for a financial instrument with similar terms and conditions. Where a pricing model is used, inputs are based on market related measures at the reporting date.

Derecognition

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The above mentioned scenario occurs when the Bank transfers all risks and benefits related to ownership to another business entity or, when its rights were achieved, transferred or expired.

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished. If the terms of a financial liability change, the Bank will cease recognizing that liability and will instantaneously recognize a new financial liability, with new terms and conditions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8. Financial assets (continued)

Specific financial instruments

Placements with other banks (Murabaha)

Murabaha transactions represent investments in sale and purchase of goods recognized as placements with other banks. Difference between purchase and sale price is treated as return rate on the basis of investments, and it is calculated during validity of sale and purchase agreement, using effective profit margin method. These investments are classified as financial instruments and they are stated at amortized cost.

All other purchases and sales of investments are recognized at the transaction date, when the Bank acquired liability to buy or sell assets.

Financing of customers

Financing of customers and advances to customers are presented at amortised cost net of impairment allowances to reflect the estimated recoverable amounts.

Investment in other companies

Investments in other companies are classified as available for sale and they are measured at fair value, unless there is a reliable fair value measure, when these investments are stated at cost net of impairment allowances.

Borrowings

Profit margin bearing borrowings are recognized initially at fair value, less attributable transaction costs. Subsequent to initial recognition, profit margin bearing borrowings are stated at amortised cost with any difference between proceeds (net of transaction costs) and redemption value being recognised in the income statement over the period of the borrowings on an effective profit margin basis.

Liabilities towards banks and clients

Liabilities towards banks and clients are classified as other liabilities and are initially recognized at fair value increased for transaction costs, while subsequently they are stated at amortised cost on an effective profit margin basis.

Reposessed collateral

Reposessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue financing of customers. The assets are initially recognised at fair value when acquired and included in other assets, other financial assets or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Financing of customers related commitments

The Bank issues financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as financing of customers. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8. Financial assets (continued)

Impairment of financial assets

Impairment of financial assets relates to financial assets classified as financing of customers and receivables carried at amortized cost and off-balance sheet items, in particular:

- Balance sheet exposure:
 - o Financing of customers,
 - o Overdrafts/current accounts, revolving financing lines of customer/financing lines,
 - o Receivables such as guarantees and bills.
- Off - balance sheet exposure:
 - o Guarantees,
 - o Letters of credit,
 - o Unused portions of financing (including overdrafts, other revolving products, unused approved financing etc.).

Impairment calculation covers the following:

- Retail exposures,
- Corporate exposures (including also SME clients),
- Bank and other financial institutions exposure,
- Government and municipalities exposure,
- Other receivables (including IAS 39 category 'loans and receivables,' that have not been previously included).

All individually significant exposures for which loss events have been identified are measured individually. This approach is used for all clients and all types of exposures.

When expected future cash flows for previously impaired exposures fully cover exposure, the Bank will not make additional provisions.

The Bank applies portfolio impairments when:

1. Clients meet their obligations (portfolio impairment provisions), or
2. Clients do not meet their obligations, but exposures are not individually significant (specific or individual impairment provisions).

a) Financial assets carried at amortized cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If such evidence is identified, the recoverable amount of assets is being evaluated.

Client financing is disclosed net of impairment, in order to reflect their estimated recoverable value. Specific provisions for uncollectable amounts are formed in comparison with carrying amount of client financing, whose value is identified as impaired, based on regular balance reviews.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8. Financial assets *carried at amortized cost* (continued)

Impaired financial assets are classified in categories, depending from collectability level, which is being determined based on a number of days in default, estimate of financial position of the debtor and quality of security instruments for collection of assets. Provisions are determined using provision rates, as determined by the FBA, to the uncollectible principle amount.

Increase in provisions is recognized in income statement

If the receivables from financings and advances to customers are uncollectible, and all legal procedures have been completed and the final amount of loss is determined, those receivables are directly written off. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognised impairment loss is recognised in the income statement.

Assets carried at amortised cost include shares available for sale, for which there is no reliable fair value. At each balance sheet date, the Bank estimates whether there is objective evidence on impairment of certain financial assets or group of financial assets.

b) *Estimates of potential losses on financial assets in accordance with the requirements of the Banking Agency of the Federation of Bosnia and Herzegovina.*

In accordance with the Decision of the Federal Banking Agency (FBA) clas-

sification of assets and statement of financial position items according to the degree of collectability, the Bank is required to classify financing, placements and other off-balance sheet items and its exposure to risk in categories A, B, C, D and E in accordance with the assessment collectability of financings and other investments on the basis of orderliness in payment of obligations of the debtor, debtor's financial position and collateral secured claims. The estimated amount of reserves for potential losses is calculated using the following percentage: 2% of financings classified in category A, 5% - 15% of the financings category B, 16% - 40% on financings from category C, 41 - 60% on financings from category D and 100% of the financings category E.

If the amount of provisions for loan losses, calculated in accordance with the Decision on minimum standards for credit risk management and classification of banks' assets, is greater than the sum of the amounts of balance sheet assets value adjustments and provisions for losses on off-balance sheet items and has already established reserves for credit losses, the Bank is required to treat the difference as missing provisions for loan losses in accordance with the foregoing decision. The amount of missing provisions for credit losses regulatory requirement is deducted from capital.

If the amount of adjustments and provisions for losses on off-balance sheet items is greater than the calculated amount of reserves for credit losses, the Bank is not required to establish additional provisions for loan losses. The Bank is not allowed to use excess provisions for credit losses for individual clients or parties to offset the missing provisions for credit losses for other clients.

In accordance with the same decision, the Bank can not diminish the amount already established reserves for credit losses under FBA regulations.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8. Financial assets *carried at amortized cost* (continued)

- c) *Assets classified as held for sale and assets at fair value through profit and loss*

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is showing signs of impairment. In the case of securities classified as available-for-sale, a significant decline or continued decline in the fair value of the security below its cost is indicated that such security is impaired. If there is evidence of impairment of financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value - it is recognized in the profit or loss. If, in future, the fair value of debt instruments classified as available for sale increases as result of an event occurring after the impairment loss is recognized in the profit or loss for impairment, loss is reversed through other comprehensive income.

2.9. Provisions

Provisions for legal claims are recognized when:

- the Bank has a present legal or constructive obligation as a result of past events,
- it is more likely than not that an outflow of resources will be required to settle the obligation,
- the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in a settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expected cash outflows to be required to settle the obligation.

For off-balance sheet liabilities provisions are formed in the following cases:

- Due to past event, because of which present payment liability of the bank exists;
- There is more than 50% probability that the bank will have to settle the liability;
- If it is possible to precisely measure the amount of the liability and to form provision in the same amount.

2.10. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacement of assets are capitalized. Gains or losses on the retirement or disposal are included in the statement of income in the period they occur. Properties in the course of construction are carried at cost, less impairment loss, if any. Depreciation commences when the assets are ready for their intended use. Depreciation is calculated using linear method, based on estimated useful life of an asset.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10. Property and equipment (continued)

Estimated depreciation rates were as follows:

	2013	2012
	%	%
Buildings	1.3 – 2.0%	1.3 – 2.0%
Computers	20.0 – 33.3%	20.0 – 33.3%
Vehicles	15.5%	15.5%
Other equipment	7.0 – 33.3%	7.0 – 33.3%

Impairment

At each balance sheet date, the Bank reviews the carrying amounts of its property, plant and equipment, in order to determine if there is any evidence of losses occurred due to impairment of the above mentioned assets. If the Bank determines such evidence, the recoverable amount of assets is being estimated, in order to be able to determine potential loss from impairment of assets.

Recoverable value is net selling price or value in use, depending on which of the two is higher. For the purposes of evaluation of value in use, estimated future cash flows are discounted to the present value using dis-

count rate before taxation, which reflects the current market evaluation of time value of cash and risks specific to that asset.

If the estimated recoverable amount of an asset is lower than the carrying amount, then, the carrying amount of that asset is impaired to the recoverable amount. Impairment losses are recognized as an expense, unless that asset is a land or a building which is not use as an investment property, and which is stated at revaluated amount, and in that case, the impairment losses are stated as decrease of value, caused by the revaluation of an asset.

With subsequent cancelling of impairment losses, the carrying amount of assets is being increased to the revised estimated recoverable amount of that asset, and this carrying amount is not higher than carrying amount that would be determined if in the previous years there were no recognized losses to those assets, due to impairment. Cancelling of impairment losses is recognized as income, if the asset is not stated at estimated value, when the cancelled impairment losses are stated as increase due to revalorization.

2.11. Intangible assets

(a) *Licences*

Acquired licences for computer software are shown at historical cost. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives.

(b) *Computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11. Intangible assets (continued)

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. The estimated useful lives are:

Software and license	5 years
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Amortisation method and estimated useful life are reviewed and corrected, if necessary, at each balance sheet date.

2.12. Employee benefits

Short term benefits

The Bank pays pension and health insurance on behalf of its employees, which are calculated on the gross salary paid, as well as taxes on salaries, which are calculated on the net salary paid. The Bank pays the above contributions into the Federal pension and health fund, according to statutory rates during the course of the year. In addition, meal

allowances, transport allowances and vacation bonuses are paid in accordance with local legislation. These expenses are recorded in the income statement in the period in which the obligation arises.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Long-term benefits: retirement severance payments and early retirement bonuses

The Bank pays to its employees retirement severance benefits upon retirement in an amount representing three times the average salary in the FBiH as calculated by the Federal Bureau of Statistics or three times the salary of the employee in question (depending of what is more favourable to the employee).

The cost of providing benefits is determined using the projected unit credit method. The project unit credit method considers each period of service giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate equal to interest rate of state securities.

2.13. Share capital

Share capital

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

Dividends

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14. Statutory reserves

A statutory reserve has been created in accordance with the Company law of FBiH, which requires 10% of the profit for the year to be transferred to this reserve until statutory reserves reach 25% of issued share capital. If the statutory reserves do not reach 25% of issued share capital within 5 business years, a public limited company is required to increase its transfer to this reserve to 20% of its profit for the year at the end of the fifth and any following business year until capital reserves reach 25% of issued share capital. The legal reserve can be used for covering current and prior year losses.

2.15 Off-balance sheet commitments and contingent liabilities

In the ordinary course of business, the Bank enters into credit-related commitments which are recorded in off-balance sheet accounts and primarily comprise guarantees, letters of credit and undrawn financing commitments. Such financial commitments are recorded in the Bank's balance sheet if and when they become payable.

2.16 Managed funds for and on behalf of third parties

The Bank manages funds for and on behalf of corporate and retail cli-

ents. These amounts do not represent the Bank's assets and are excluded from the balance sheet. For the services rendered the Bank charges a fee.

2.17 Related party transactions

According to IAS 24 related parties are parties that represent:

- The parties which directly, or indirectly through one or more intermediaries, control or are controlled by, or is under common control with, the entity;
- Parties in which the Bank has an interest in the entity that gives it significant influence over the entity and that are neither related parties nor joint investment;
- Private individuals who directly or indirectly have voting power in the Bank that gives them significant influence over the Bank, or any other subject which is expected to influence or be influenced by a related party to the Bank;
- Members of the key management personnel i.e., individuals with authorizations and responsibilities for planning, managing and controlling the Bank's operations, including directors and key management.

When taking into account each possible transaction with a related party, attention is focused on basis of relationship not just legal form (Note 30).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT

3.1. Strategy in use of financial instruments

The Bank's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk. Market risk includes currency risk, profit margin and other price risk.

Risk management is carried out by the Bank's departments in charge for individual risks under policies approved by the Management board.

The Bank has established an integrated system of credit risk management by introducing a set of policies and procedures for analysis, evaluation, acceptance and risk management, which is carried out by the Credit risk and market management department. Also, the Bank has adopted procedures for following the liquidity risk within the Asset and financial institutions department, while the Operating risk management, information security and internal controls department follows and assesses the level of the operating risk.

The Management board has overall responsibility for the establishment and oversight of the Bank's credit risk management framework. Risk steering and risk controlling processes are adjusted in a timely manner to reflect changes in the operating environment.

3.2. Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank has adopted a policy of only dealing with creditworthy counterparties and

obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Credit risk management and provisions and impairment policies

Credit and market risk management division assesses the credit risk by analysing financial statements taking into account that balance of companies granting loans should have a balanced structure and maturity in order not to come into danger of insolvency, or inability of regular servicing obligations, and so as not to spoil the basic rule of the balance-balance of assets and liabilities.

In analysing balance sheets, the Division applies fundamental techniques and financial analysis whereat the greatest attention is given to items of assets such as inventory, accounts receivable and fixed assets due to their susceptibility to change over time, as the inventory and accounts receivable decrease and increase, and the fixed assets are depreciated.

Exposure to credit risk / risk financing / must be covered by adequate collateral, in accordance with legal regulations and internal regulation. Types of collateral acceptable to the Bank, as well as the relationship between the value of collateral and loan / financing or guarantees are established by the Decision on the definition, assessment and treatment of the underlying collateral.

The Bank calculates impairment provisions in accordance with the International Accounting Standard 39 – "Financial instruments: Recognition and Measurement" and in accordance with the FBA regulations. The provisions are calculated with regard to the risk of individual placement and existence of objective evidence of impairment, taking into consideration quality, value, and market quality of collaterals. Impairment provisions are created on a group and individual basis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2. Credit risk (continued)

Individually significant placements are assessed for impairment on an individual basis, while the remainder of the credit portfolio is assessed collectively. Individually significant placements are placements whose exposure is higher than BAM 50,000 and who have days of delay more than 90.

Classification proposal is drafted by Credit and market risk management division after that Operations sector and Sector of financial control, strategic planning and general accounting finish all the activities of the current month related to the booking of all inflows, penalties and compliance of all account balances that are directly related to the assets which are the subject of classification.

The proposal for the calculation of specific provisions contains the overall exposure of the client across all products in the Bank.

Draft proposals of the provisions for the client are delivered to the Retail banking sector and Corporate banking sector.

Corporate banking and Retail banking sector submit comments for the clients they believe inadequate categorization and percentage of provision was proposed.

The calculation methodology for value adjustment is completely the same with an additional supplement related to the obligation of the Department for legal entities and Department for retail business to document the current cash flow which is included in calculation of value adjustment. Market and credit risk department assess the acceptability of the proposed documentation for including

current cash flow when calculating value adjustments.

After accepting comments of Retail and Corporate banking sectors, Credit and market risk management division submits classification proposal along with the comments to the Bank Management during the first working week of the following month.

The Bank Management considers the submitted explanations of Credit and market risk management division, comments of Corporate banking and Retail sector, and makes the final decision on the level of provisions for the month upon which Credit and market risk management division constitutes the final report (tabular view) of the level of specific provisions for the current month. Report (tabular view) of the proposed categorization of the client is approved and signed by the Bank Management.

After the completion of regulatory provision calculation activities, Credit and market risk management division discounts cash flows and creates provisions proposal in accordance with the internal methodology for impairment under IAS 39. Proposal is signed by the Bank Management upon which Sector of financial control, strategic planning and general accounting book it.

The meeting is held once a month in the first working week of the following month. Minutes of the meeting constitutes Credit and market risk management division.

In order to diversify assets and minimize the concentration of credit risk / risk financing in its operations, the Bank should focus its loans to as many customers as possible, with smaller amounts.

In case the user needs larger amounts of loans / financing / guarantee, the Bank is included on the principle of co-financing with other banks based on customer suggestions or bank.

Any bank participating in the co-funding assumes the risk of its portfolio.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

The Bank does not express willingness of financing the clients in the following cases:

- If there is no clearly legitimate purpose for the request and precise maturity date of the placement,
- If a refund of disbursed funds is based only on the possible activation of security instruments,
- If they caused the losses in the past, which were transferred to the Credit and market risk management division - Section for monitoring of collecting problematic fundings and reprogramming (except of items whose duties are reprogrammed),
- If they are of dubious morals (individuals and companies established for money laundering)
- If the approval request, the Bank came to a subordinate position in relation to another provider loan / financing,
- If the person or legal entity is on the banks blacklist (list of suspicious persons, organizations, companies)

Bank has ensured that credit analysis and monitoring of the project is carried out with due regard to environmental factors and the environment in accordance with national laws, standards and regulations set forth by the Central Bank, which includes the prohibition of financing of any transactions or project that would have a detrimental impact the environment.

The Bank takes into account the dispersion of risk for particular regions and sectors, in an effort to direct investments in all economic sectors:

- citizens and independent artisans and merchants;
- individual farmers;
- companies from trading activities;
- companies from industrial activities;
- companies from other activities (tourism, catering, etc.)
- banks and financial institutions.

Committee for funding and investment of the Bank decides whether to approve a particular funding or guarantee of individuals and legal entities that cause or increase exposure to credit risk / risk financing / on the basis of:

- Any legal transaction whose value comes to the Bank's exposure to an individual user or group of people;
- Any legal transaction which would result or increased exposure towards the individual user or group of people.

Exceptions are funding to the amount of BAM 25,000 where a branch manager has jurisdiction over individual approval of funding for individuals.

In making its decision on the approval of exposure to one customer or group of people over the amount of BAM 3,000,000, the Bank is required to obtain the prior consent of the Supervisory board.

In making its decision to approve the Bank's exposure to credit risk / risk financing, adopted procedures for approving loans to legal entities and procedures for funding individuals for individual products are fully respected.

Making decisions about exposure to credit risk / risk financing to related parties are carried out in accordance with Specific policies with procedures for operations with related parties.

BBI Academy





NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

Banks granting loans to employees shall be made in accordance with the Policies and procedures of financing Bank employees.

Credit risk management function is separate from everyday tasks related to relationships with clients and lending / financing. Credit and market risk department assesses the credit risk for each finance request of legal entities, and also requests for financing of retail entities over BAM 25,000. For amounts ranging from BAM 10,000 to BAM 25,000 Credit and market risk department makes subsequent assessments of the credit risk by choosing random samples, so as to cover 1/3 of the total number of approved loans.

Opinion shall be recorded in a document called "Assessment of Division" and is an integral part of the proposal for funding of legal entities or individuals.

As part of its responsibility, which includes providing a stable portfolio of risky investments, Credit and market risk management division should monitor limits, respectively the maximum level of exposure in relation to individual customers by individual user or group of people at the time of approval of funding. Each individual application for funding of legal entities should include the percentage of exposure to an individual user or a group of people in relation to bank capital.

Sector of strategic planning and general accounting quarterly submits information on the amount of share capital by the final data at the end of each quarter (the latest by 15th of the month for the previous quarter) with respective percentages and amounts of concentration of credit risk to Credit and market risk management division, Corporate banking and Retail sector, in the following form:

- allowed exposure to credit risk without collateral (amounts in BAM) = Bank share capital x 5%;
- large exposures to credit risk (amounts in BAM) = Bank share capital x 15%;
- allowed exposure to credit risk without first-class collateral (amounts in BAM) = Bank share capital x 25%;
- maximum exposure to credit risk (amounts in BAM) = Bank share capital x 40%;
- large sum of exposures to credit risk (amounts in BAM) = Bank share capital x 300%.

Sector of financial control, strategic planning and general accounting quarterly reports Bank Management on the development of exposure limits defined by articles 4, 5, 6, 7, 8, 9 of the Program, policies and procedures to ensure diversification and concentration of financing risk after the completion of the accounting entries that have resulted in a reduction of capital. Bank Management provides guidance to remove any excess, and more balanced distribution, management and control of existing and potential exposure of the Bank.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

The following table presents maximum credit risk exposure for statement of financial position items:

31 December 2013	Total carrying value	Individual impairment	Collective impairment	Total net carrying value
Cash and balances with banks	147,757	-	(14)	147,743
Obligatory reserve with CBBH	27,087	-	-	27,087
Placements in other banks	36,814	-	(27)	36,787
Financial assets available for sale	57	-	(12)	45
Financial assets at fair value through profit or loss	542	-	-	542
Financing of customers	346,400	(5,321)	(7,042)	334,037
Other assets	5,301	(7)	(73)	5,221
Total	563,958	(5,328)	(7,168)	551,462
31 December 2012				
Cash and balances with banks	91,825	-	(20)	91,805
Obligatory reserve with CBBH	22,333	-	-	22,333
Placements in other banks	33,420	-	(25)	33,395
Financial assets available for sale	58	-	(13)	45
Financial assets at fair value through profit or loss	419	-	-	419
Financing of customers	279,839	(5,754)	(6,248)	267,837
Other assets	2,063	-	(55)	2,008
Total	429,957	(5,754)	(6,361)	417,842

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

The table below shows the gross amount of assets exposed to credit risk for each category of exposures of the Bank, together with related amounts of impairment losses. Non-performing assets are those assets overdue for more than 90 days exceeding thresholds set or restructured assets, as a consequence of financial difficulties of the borrower, where the principal, profit margin or fee is decreased or the repayment term extended. In 2012, non-performing assets were defined as C, D and E category loans and all loans with days of delay exceeding 90 days. The presentation as of 31 December 2012 has been adjusted to the current year presentation.

31 December 2013	Gross exposure	Impairment provision	Net exposure
Performing	481,366	(4,144)	477,222
Non performing	49,605	(8,260)	41,345
	530,971	(12,404)	518,567

31 December 2012	Gross exposure	Impairment provision	Net exposure
Performing	341,251	(3,710)	337,541
Non performing	63,833	(8,337)	55,496
	405,084	(12,047)	393,037

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

Exposure to credit risk from financing customers and investments in banks (excluding obligatory reserve) is as follows:

	Banks		Corporate		Retail		Total	
	Gross	Risk provision	Gross	Risk provision	Gross	Risk provision	Gross	Risk provision
31 December 2013								
Without rating	184,571	(41)	-	-	-	-	184,571	(41)
Performing	-	-	187,521	(2,992)	109,274	(1,112)	296,795	(4,104)
Non performing	-	-	38,956	(4,982)	10,649	(3,277)	49,605	(8,259)
Total	184,571	(41)	226,477	(7,974)	119,923	(4,389)	530,971	(12,404)
Total (net)	184,530		218,503		115,534		518,567	
31 December 2012								
Without rating	125,245	(45)	-	-	-	-	125,245	(45)
Performing	-	-	130,004	(2,857)	86,002	(808)	216,006	(3,665)
Non performing	-	-	55,221	(5,477)	8,612	(2,860)	63,833	(8,337)
Total	125,245	(45)	185,225	(8,334)	94,614	(3,668)	405,084	(12,047)
Total (net)	125,200		176,891		90,946		393,037	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

Provisions for impairment and provisioning policy

Impaired financings and securities are those financings and securities for which the Bank determines that it is not likely it will be able to collect all principal and accrued profit margins under the provisions of the financing agreement / securities.

Individually impaired assets are those assets that are individually assessed to have been impaired and where loan loss provisions have been recognized.

The Bank assesses impairment of receivables for incurred losses in the financing portfolio.

Classification of receivables is based on an analysis of delays in settlement of obligations and indicators of return.

In case of individually impaired assets, future estimated cash flows are discounted in accordance with the requirements of IAS 39, to arrive at an appropriate amount of provision.

Receivables from financing of customers net of provisions are presented in the table below:

	Total receivables from financing of customers	Impairment losses	Receivables from financing of customers
31 December 2013			
Portfolio risk provisions	302,713	(7,042)	295,671
Specific risk provisions	43,687	(5,321)	38,366
	346,400	(12,363)	334,037
31 December 2012			
Portfolio risk provisions	221,507	(6,248)	215,259
Specific risk provisions	58,332	(5,754)	52,578
	279,839	(12,002)	267,837

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

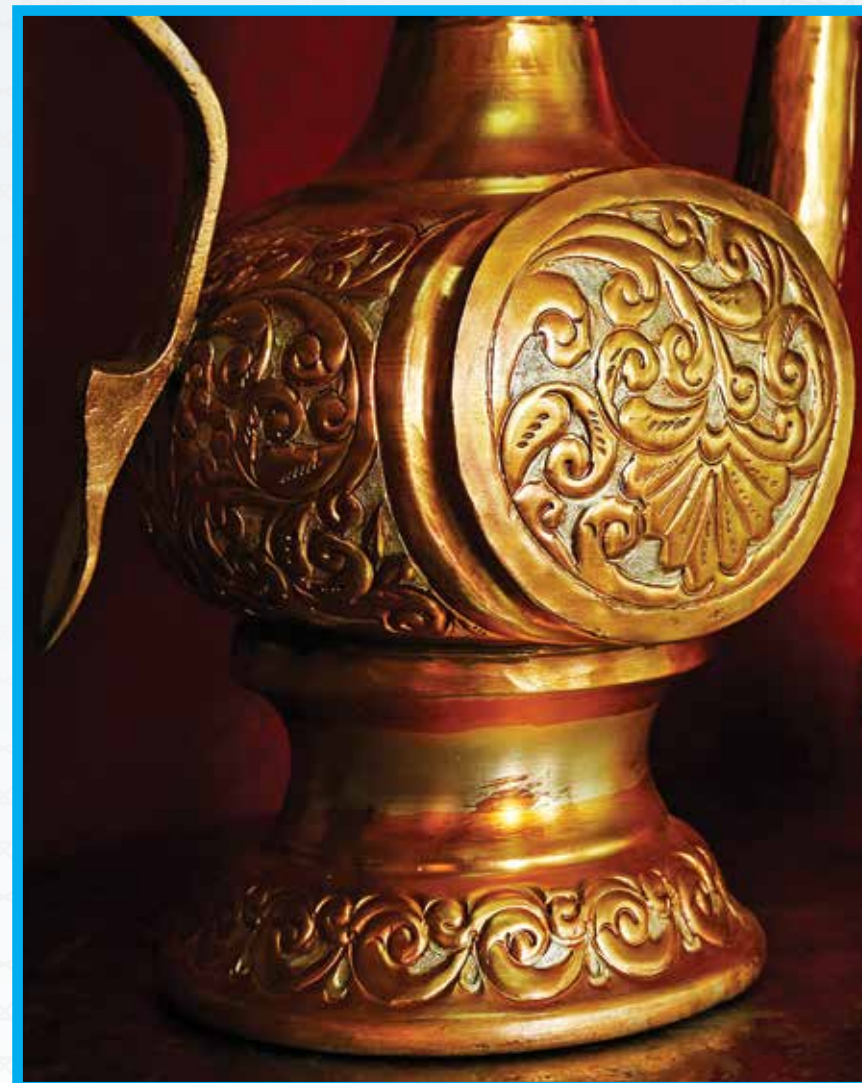
3. FINANCIAL RISK MANAGEMENT (continued)

Collateral

With a view to minimising credit risk, the Bank has a rulebook for security for financing of customers and other placements and secures its credit exposures by taking one or more of the following instruments:

- cash,
- mortgages over properties,
- pledges over movable assets,
- pledges over inventories,
- guarantors (banks and corporate),
- cession,
- securities,
- insurance policies,
- guarantors (individuals and legal entities, state BiH, FBiH and local government).

Fair value of net assets is based on the estimated value of the security instrument at the time of borrowing, and is updated periodically in accordance with the Decision on defining, valuation and treatment of collaterals.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

Financing and collateral exposure:

	Retail		Corporate		Total	
	Maximum exposure to financing risk	Fair value of collateral	Maximum exposure to financing risk	Fair value of collateral	Maximum exposure to financing risk	Fair value of collateral
31 December 2013						
Net credit exposure	115,534	63,595	218,503	310,424	334,037	374,019
31 December 2012						
Net credit exposure	90,946	49,562	176,891	267,712	267,837	317,274

Maturity and the impairment of financing of customers, which include financing of customers and advances and financing of banks, can be summarized as follows:

	Neither due nor impaired	Due not impaired	Impaired receivables	Impairment allowance – collective	Impairment allowance – individual	Total
31 December 2013						
Corporate	206,616	4,303	15,558	(3,157)	(4,817)	218,503
Banks	184,571	-	-	(41)	-	184,530
Retail	116,614	1,477	1,832	(3,885)	(504)	115,534
Total	507,801	5,780	17,390	(7,083)	(5,321)	518,567
31 December 2012						
Corporate	165,287	3,446	16,492	(3,156)	(5,178)	176,891
Banks	125,245	-	-	(45)	-	125,200
Retail	92,350	357	1,907	(3,092)	(576)	90,946
Total	382,882	3,803	18,399	(6,293)	(5,754)	393,037

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

Aging analysis at financing of past due and not past due, impaired and not impaired balance sheet items as of 31 December (including placements to banks and financing of customers and advances to customers) is as follows:

	Neither due nor impaired	Due not impaired	Impaired receivables	Impairment allowance – collective	Impairment allowance – individual	Total
31 December 2013						
No delays	480,593	701	4,811	(3,830)	(1,260)	481,015
Up to 30 days	13,096	473	339	(193)	(29)	13,686
From 30 to 90 days	9,305	109	-	(121)	-	9,293
Over 90 days	4,807	4,497	12,240	(2,939)	(4,032)	14,573
Total	507,801	5,780	17,390	(7,083)	(5,321)	518,567
31 December 2012						
No delays	361,028	359	4,055	(3,428)	(471)	361,543
Up to 30 days	12,974	371	-	(207)	-	13,138
From 30 to 90 days	4,561	287	222	(113)	(21)	4,936
Over 90 days	4,319	2,786	14,122	(2,545)	(5,262)	13,420
Total	382,882	3,803	18,399	(6,293)	(5,754)	393,037

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

The Bank monitors concentration of credit risk by industry segments and geographic locations.

Concentration risk in the net balance sheet exposures by industry is as follows:

	2013		2012	
Concentration risk by industry sector	BAM'000	%	BAM'000	%
Production	83,577	25.02%	65,089	24.30%
Trade	77,496	23.20%	60,260	22.50%
Construction	25,993	7.78%	20,694	7.73%
Transport and communications	9,080	2.72%	4,471	1.67%
Property	6,337	1.90%	7,980	2.98%
Agriculture, hunting, fishing	6,156	1.84%	4,975	1.86%
Tourism	962	0.29%	544	0.20%
Financial institutions	313	0.09%	1	0.00%
Education and other public services	238	0.07%	225	0.08%
Other	8,351	2.50%	12,652	4.72%
Total corporate	218,503	65.41%	176,891	66.04%
Housing	77,061	23.07%	52,936	19.76%
Other	35,260	10.56%	36,674	13.69%
Entrepreneurs	3,213	0.96%	1,336	0.50%
Total retail	115,534	34.59%	90,946	33.96%
Total	334,037	100.00%	267,837	100.00%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

The structure of client financing is regularly monitored by the Risk management division and the Financing committee in order to identify possible events that could have a major impact on the client financing portfolio (the usual risk factors), and if necessary reduce the Bank's exposure to certain sectors of the economy.

Financing of customers is given to clients in Bosnia and Herzegovina.

Reprograms and restructuring

Reprogrammed and restructured assets are assets which are refinanced, restructured or in any other manner changed, therefore, asset conditions are changed because the beneficiary was not able to repay the debt as regulated by the initial agreement. In such cases, the beneficiary benefits from different rates (lower), modified terms of repayment (term or repayment dynamics) or any other changes to the initial agreement, in order to enable the beneficiary to service its debt in an improved way, which is also safer for the Bank. Decision on restructuring is made by Committee for finance and investment, while amounts over BAM 3,000,000 are subject to approval by the Supervisory board.

Restructured and reprogrammed financing of customers as of 31 December 2013 and 2012 can be summarized as follows:

	Number of restructured financing of customers	Value
31 December 2013		
Corporate	56	31,845
Retail and SME	21	841
Total	77	32,686
31 December 2012		
Corporate	40	24,018
Retail and SME	18	685
Total	58	24,703

Intensive client monitoring

The Bank introduces intensive monitoring of clients whose placements still do not fulfil conditions for transfer into non-quality assets, and that demand careful processing and monitoring of operating activities. Such clients are placed on the intensive monitoring list, due to different issues identified (large volumes places, negative operating trends, increase of debt, calculation of clients' capital adequacy, non-payment or irregular repayment of liabilities). Initiative for placing a specific client on the intensive monitoring list comes from the business units of the Bank, and the decision on the actual placing on the list comes from the Bank's Management. Intensive monitoring means that the client monitored remains in the operating unit of the Bank and the employees of the Department for high-risk placements are being involved in the processing, as well as employees of the Legal department, if needed.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

The Bank has established the Department for early debt collection and finance monitoring prior to 2013 year-end to enhance recognition and monitoring of early signs of credit risk, as part of the Corporate banking department.

Intensive client monitoring is terminated in following cases:

- due to dismissal of all placements of the Bank (by payment, or disposal)
- by the decision of the Bank's Committee for finance and investment on transfer of the clients' receivables to the Department of re-structured placements (in case of further deterioration of the client's status)
- by initiating insolvency proceeding over the client
- in all other cases when the Bank's Management brings the decision on termination of the intensive client monitoring.

3.3. Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in profit margin, foreign currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit margin, for-

ign exchange rates and equity prices.

The Management board sets limits and guidelines for monitoring and mitigating of market risks, which is regularly monitored by risk committees of the Bank.

3.4. Foreign exchange risk

Exposure to currency risk arises from financing, deposit-taking and trading activities and is controlled on a daily basis in accordance with legal limits for each currency, as well as in total amounts for assets and liabilities denominated in or linked to foreign currencies.

Treasury department is responsible for daily management of the Bank's currency position in accordance with legal and internal regulations.

In order to manage foreign exchange rate risk more efficiently, the Bank monitors economic and other business changes in the environment in order to predict possible changes in foreign currency activities, exchange rates, currencies and risk.

Concentration of currency risk of assets and liabilities

The Bank had the following significant currency positions as at 31 December 2013 and 31 December 2012. The Bank has a number of contracts which are in domestic currency but are linked to foreign currency. The domestic currency value of the principal balances and profit margin payments are therefore determined by movements in foreign currencies.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

As at 31 December 2013	BAM	EUR	USD	Other	Total
Assets					
Cash and balances with banks	93,056	45,866	5,772	3,049	147,743
Obligatory reserve with CBBH	27,087	-	-	-	27,087
Placements with other banks	1	33,773	3,013	-	36,787
Financial assets available for sale	28	-	17	-	45
Financial assets at fair value through profit or loss	298	244	-	-	542
Financing of customers	334,037	-	-	-	334,037
Other assets	4,875	333	12	1	5,221
Property and equipment	9,532	-	-	-	9,532
Intangible assets	802	-	-	-	802
Total assets	469,716	80,216	8,814	3,050	561,796
Liabilities and equity					
Due to banks	-	35,276	-	-	35,276
Due to customers	190,141	156,835	8,607	2,107	357,690
Borrowings	9,150	68,454	-	-	77,604
Other liabilities	3,009	204	120	1	3,334
Provisions for liabilities and charges	614	74	70	-	758
Share capital and reserves	87,134	-	-	-	87,134
Total liabilities and equity	290,048	260,843	8,797	2,108	561,796
Net foreign exchange position	179,668	(180,627)	17	942	-

Difference in net foreign exchange positions exists because all financing with currency clause EUR are shown in BAM position. Since the position of other currencies do not show any significant movements, the Bank is not exposed to any other significant currency risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

	BAM	EUR	USD	Other	Total
As at 31 December 2012					
Assets					
Cash and balances with banks	20,832	61,492	5,745	3,736	91,805
Obligatory reserve with CBBH	22,333	-	-	-	22,333
Placements with other banks	1	31,790	1,604	-	33,395
Financial assets available for sale	27	-	18	-	45
Financial assets at fair value through profit or loss	323	96	-	-	419
Financing of customers	267,777	60	-	-	267,837
Other assets	1,887	108	12	1	2,008
Property and equipment	8,790	-	-	-	8,790
Intangible assets	920	-	-	-	920
Total assets	322,890	93,546	7,379	3,737	427,552
Liabilities and equity					
Due to banks	35,277	-	-	-	35,277
Due to customers	162,007	109,147	7,115	3,144	281,413
Borrowings	13,513	39,117	-	-	52,630
Other liabilities	2,722	303	45	1	3,071
Provisions for liabilities and charges	814	128	57	-	999
Share capital and reserves	54,162	-	-	-	54,162
Total liabilities and equity	268,495	148,695	7,217	3,145	427,552
Net foreign exchange position	54,395	(55,149)	162	592	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT

(continued)

3.5. Profit margin risk

The Bank's activities are affected by changes in profit margin in that profit margin bearing assets and liabilities mature, or their profit margin are changed, at different times or in different amounts.

The majority of the customer financing portfolio is initially contracted at profit margin rates that are based on 6 months or 1 year EURIBOR. The Management Board changes these rates in response to changes in the prevailing market rates. Most of the contracts for financing of retail and corporate entities have a contract clause "not less than" which protects the Bank from potential losses caused by a decrease in EURIBOR.

Profit margin rate of assets and liabilities

The tables below summarize the Bank's exposure to profit margin risks at year end. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual reprising of maturity dates or changes in profit margin.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

As at 31 December 2013	No profit margin	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total	Fixed profit margin
Assets								
Cash and balances with banks	62,772	84,971	-	-	-	-	147,743	84,971
Obligatory reserve with CBBH	-	27,087	-	-	-	-	27,087	27,087
Placements with other banks	-	26,976	-	9,811	-	-	36,787	36,787
Financial assets available for sale	45	-	-	-	-	-	45	-
Financial assets at fair value through profit or loss	542	-	-	-	-	-	542	-
Financing of customers	11,233	16,733	19,814	89,797	147,938	48,522	334,037	-
Other assets	5,157	64	-	-	-	-	5,221	52
Property and equipment	9,532	-	-	-	-	-	9,532	-
Intangible assets	802	-	-	-	-	-	802	-
Total assets	90,083	155,831	19,814	99,608	147,938	48,522	561,796	148,897
Liabilities and equity								
Due to banks	-	5,869	-	29,407	-	-	35,276	-
Due to customers	135,402	21,027	13,373	92,589	90,667	4,632	357,690	98,714
Borrowings	68,457	108	237	1,162	4,869	2,771	77,604	984
Other liabilities	2,388	946	-	-	-	-	3,334	54
Provisions for liabilities and charges	142	616	-	-	-	-	758	-
Share capital and reserves	87,134	-	-	-	-	-	87,134	-
Total liabilities and equity	293,523	28,566	13,610	123,158	95,536	7,403	561,796	99,752
Net foreign exchange position	(203,440)	127,265	6,204	(23,550)	52,402	41,119	-	49,145

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

As at 31 December 2012	No profit margin	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total	Fixed profit margin
Assets								
Cash and balances with banks	76,805	8,851	1,425	2	4,722	-	91,805	15,000
Obligatory reserve with CBBH	-	22,333	-	-	-	-	22,333	22,333
Placements with other banks	-	932	30,933	1,530	-	-	33,395	32,838
Assets available for sale	45	-	-	-	-	-	45	-
Financial assets at fair value through profit or loss	419	-	-	-	-	-	419	-
Financing of customers	5,047	97,529	33,030	45,080	87,151	-	267,837	16,094
Other assets	2,008	-	-	-	-	-	2,008	507
Property and equipment	8,790	-	-	-	-	-	8,790	-
Intangible assets	920	-	-	-	-	-	920	-
Total assets	94,034	129,645	65,388	46,612	91,873	-	427,552	86,772
Liabilities and equity								
Due to banks	-	5,867	-	9,852	19,558	-	35,277	12,219
Due to customers	117,558	2,206	31,225	65,813	62,815	1,796	281,413	32
Borrowings	-	-	-	-	6,011	46,619	52,630	322
Other liabilities	142	544	2,229	156	-	-	3,071	194
Provisions for liabilities and charges	170	829	-	-	-	-	999	-
Share capital and reserves	54,162	-	-	-	-	-	54,162	-
Total liabilities and equity	172,032	9,446	33,454	75,821	88,384	48,415	427,552	12,767
Profit margin gap	(77,998)	120,199	31,934	(29,209)	3,489	(48,415)	-	74,005

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

3.6 Liquidity risk

Liquidity risk arises in the funding of the Bank's activities and in the management of its positions. The Bank consolidates its operations in respect of liquidity risk in accordance with applicable regulation and internal policies aimed at maintenance of liquidity reserves, harmonization of assets and liabilities with targeted liquidity indicators and liquidity limits.

The Bank has access to various funding sources. Assets are collected through different types of instruments including various types of deposits from retail and corporate clients, specific credit lines/borrowings and share capital. This increases the flexibility of funding sources, decreases dependence on one source and generally ensures better management of financing cost.

The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required meeting business goals and targets. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

Tables below analyses the assets and liabilities of the Bank at 31 De-

cember 2013 and 2012 into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity except for equity securities available for sale which have been classified in accordance with their secondary liquidity characteristics as maturing within one month, as well as obligatory reserve.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

As at 31 December 2013	Without maturity	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets							
Cash and balances with banks	-	147,743	-	-	-	-	147,743
Obligatory reserve with CBBH	-	27,087	-	-	-	-	27,087
Placements with other banks	-	26,976	-	9,811	-	-	36,787
Financial assets available for sale	-	10	35	-	-	-	45
Financial assets at fair value	-	542	-	-	-	-	542
Financing of customers	-	27,724	19,823	89,839	148,109	48,542	334,037
Other assets	-	5,221	-	-	-	-	5,221
Property and equipment	9,532	-	-	-	-	-	9,532
Intangible assets	802	-	-	-	-	-	802
Total assets	10,334	235,303	19,858	99,650	148,109	48,542	561,796
Liabilities and equity							
Due to banks	-	5,869	-	29,407	-	-	35,276
Due to customers	-	156,429	13,373	92,589	90,667	4,632	357,690
Borrowings	-	108	237	1,162	4,869	71,228	77,604
Other liabilities	-	3,334	-	-	-	-	3,334
Provisions for liabilities and charges	-	758	-	-	-	-	758
Share capital and reserves	-	7,075	-	-	-	80,059	87,134
Total liabilities and equity	-	173,573	13,610	123,158	95,536	155,919	561,796
Maturity gap	10,334	61,730	6,248	(23,508)	52,573	(107,377)	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

As at 31 December 2012	Without maturity	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets							
Cash and balances with banks	-	85,656	1,425	2	4,722	-	91,805
Obligatory reserve with CBBH	-	22,333	-	-	-	-	22,333
Placements with other banks	-	932	30,933	1,530	-	-	33,395
Financial assets available for sale	-	10	35	-	-	-	45
Financial assets at fair value	-	-	419	-	-	-	419
Financing of customers	-	97,536	38,070	45,080	87,151	-	267,837
Other assets	-	737	1,270	1	-	-	2,008
Property and equipment	8,636	-	154	-	-	-	8,790
Intangible assets	920	-	-	-	-	-	920
Total assets	9,556	207,204	72,306	46,613	91,873	-	427,552
Liabilities and equity							
Due to banks	-	5,868	9	9,842	19,558	-	35,277
Due to customers	-	194	134,803	70,285	65,538	10,593	281,413
Borrowings	-	-	-	-	6,011	46,619	52,630
Other liabilities	-	686	2,229	156	-	-	3,071
Provisions for liabilities and charges	-	999	-	-	-	-	999
Share capital and reserves	-	4,103	-	-	-	50,059	54,162
Total liabilities and equity	-	11,850	137,041	80,283	91,107	107,271	427,552
Maturity gap	9,556	195,354	(64,735)	(33,670)	766	(107,271)	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

3.7. Capital management

The Bank's objectives when managing capital which is a broader concept than the 'equity' on the face of statement of financial position are:

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

Accounting standards IAS 37 and 39 were implemented for the first time in Bosnia and Herzegovina during 2011, for accounting purposes. However, the Banking agency ("Agency", "regulator" or "FBA") still requires parallel reporting of risk provisions in line with IAS, as well as previous regulatory provisions. Starting with 2011 the FBA introduced a deduction item in the calculation of the capital adequacy ratio, which is subtracted from the Bank's net capital. In 2011, the position included the difference between IAS and regulatory provisions from previous years, which were calculated as follows: the balance of risk provisions in line with IAS minus the balance of risk provisions in line with FBA.

In 2012, the content of the position has changed and represents the negative difference between IAS provisions and regulatory provisions in

line with FBA at client financing account level. This item includes negative differences (IAS provision lower than regulatory provision), whereas positive differences are not taken into account.

Capital adequacy and the balance of capital are monitored regularly by the Management board and Asset and liability committee of the Bank based on the relevant internal acts and regulations prescribed by the FBA.

The table below summarizes the composition of regulatory capital and the capital adequacy ratio of the Bank for years ended 31 December 2013 and 2012, prepared in accordance with the FBA regulations.

	2013	2012
The Bank's net capital in accordance with FBA regulations		
Basic capital	82,861	50,119
Additional capital	9,965	8,477
Reserves for losses from loans by regulation requirements	(16,788)	(8,096)
Capital, net	76,038	50,500
Total risk weighted assets	371,987	314,374
Total risk weighted operating risk	21,075	18,651
Total risk weighted assets and off-balance items	393,062	333,025
Capital adequacy ratio as at 31 December	19.3%	15.2%

The minimum capital adequacy ratio required by the FBA regulations is 12%.



BBI AND THE „SHEIKH SALEH KAMEL“ FUND
500 scholarships
were awarded to orphans from
Bosnia and Herzegovina



SHEIKH SALEH KAMEL FUND



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The Bank makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Bank's credit risk portfolio represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment losses of financing customers

The Bank monitors the creditworthiness of its customers on an ongoing basis. Impairment allowances are determined based on the category in which the asset is classified.

In determining the overall level of impairment allowance required for financing of customer's management considers delay in scheduled payments, the financial condition of the borrower, its capacity to service its obligations, quality of collateral, economic environment, historic collection and past debt experience.

A significant proportion of the Bank's credit risk exposures represent amounts which were due to be repaid under original terms, but have been

rescheduled, in certain cases with capitalized profit margin and grace periods. Due to that, it makes it difficult to assess the ultimate recoverability of the rescheduled exposure and, in view of the uncertainty, increases the risk of ultimate recoverability. There are also certain exposures where ultimate recoverability depends on the realizable value of the underlying collateral which was assessed at the time of initiation of the financing by certified court surveyors. In view of the undeveloped local real estate market, the recent adverse economic environment as well as possible administrative and legal difficulties, there is uncertainty whether or not, and in what value, the Bank will be able to enforce its rights and repossess the collateral.

Taxation

The Bank provides for tax liabilities in accordance with the tax laws of the Federation of Bosnia and Herzegovina. Tax returns are subject to the approval of the tax authorities who are entitled to carry out subsequent inspections of taxpayers' records. The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Bank may not coincide with that of the management. As a result, transactions may be challenged by tax authorities and the Bank may be assessed additional taxes, penalties and interest which can be significant. In accordance with the Law on Tax Authority of the Federation of Bosnia and Herzegovina, the limitation period for tax liabilities is five years. This means that the Tax Authorities have right to determine the payment of outstanding obligations in period of five years from the origination of the liability.

Going concern concept

The financial statements are based on the assumption that the Bank will be able to continue as a going concern for the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

5. NET INCOME FROM FINANCING AND INVESTMENTS

	2013	2012
Income from corporate sector financing (Musharaka)	12,953	11,503
Income from retail sector financing (Musharaka, Ijara)	7,391	6,037
Income from operations with other banks (Murabaha, Wakala)	2,206	2,598
Income from obligatory reserve	15	11
<i>Income from financing and investments</i>	<i>22,565</i>	<i>20,149</i>
Expenses from amounts due to corporate customers (Musharaka)	(4,423)	(3,960)
Expenses from amounts due to retail customers (Musharaka)	(3,782)	(2,382)
Expenses from amounts due to banks (Murabaha, Wakala)	(904)	(1,262)
<i>Expenses from amounts due to customers and banks</i>	<i>(9,109)</i>	<i>(7,604)</i>
Total	13,456	12,545

6. NET FEE AND COMMISSION INCOME

	2013	2012
Fees from payment transactions	2,430	1,800
Guarantees and letters of credit	936	890
Fees from foreign exchange transactions	780	573
Commission income - foreign exchange customer desk transactions	412	235
Other banking services	1,989	2,257
<i>Fee and commission income</i>	<i>6,547</i>	<i>5,755</i>
Fee expense from card and other bank activities	(601)	(486)
Fee expense from intermediary services	(297)	(302)
Fees from payment transactions	(144)	(120)
Fees from foreign exchange transactions	(84)	(57)
<i>Fee and commission expense</i>	<i>(1,126)</i>	<i>(965)</i>
Total	5,421	4,790

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

7. NET FINANCIAL GAINS

	2013	2012
Foreign exchange gains, net	421	368
Gain on assets at fair value through profit or loss, net (Note 17)	107	30
Dividend income	21	12
Total	549	410

8. PERSONNEL EXPENSES

	2013	2012
Salaries	4,349	4,077
Taxes and contributions related to salaries	2,661	2,500
Other employee expenses	1,381	1,363
Total	8,391	7,940

The average number of employees for the year ended 31 December 2013 was 263 (31 December 2012: 242). Personnel expenses include BAM 1,454 thousand (2012: BAM 1,335 thousand) of defined pension contributions paid into the State pension plan. Contributions are calculated as percentage of the gross salary paid.

9. OTHER OPERATING EXPENSES

	2013	2012
Rent	874	719
Office materials and costs of maintenance	735	601
Deposit insurance	695	600
Security	568	533
Telecommunications	473	438
Professional services	452	403
Marketing and advertising	394	312
Supervisory board and shareholders meetings	215	200
Energy, postage and communications	183	202
Other expenses	1,565	493
Total	6,154	4,501

10. NET IMPAIRMENT LOSSES AND PROVISIONS

	2013	2012
Financing of customers (Note 18)	1,198	2,572
Cash and cash equivalents (Note 13)	14	20
Placements with banks (Note 15)	2	(9)
Other assets (Note 19)	(18)	8
Provisions for contingent liabilities and commitments (Note 26)	(241)	(989)
Total	955	1,602

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

11. COLLECTED WRITTEN-OFF RECEIVABLES

	2013	2012
Collected written-off receivables from customer financing – profit margin	73	72
Collected written-off receivables from customer financing- principal	-	1
Collected written-off receivables – other	22	10
Total	95	83

12. INCOME TAX EXPENSE

Income tax recognized in the statement of comprehensive income includes current tax only.

	2013	2012
Current tax	339	299
Total income tax expense	339	299

Reconciliation of the accounting profit and income tax expense

	2013	2012
Profit before tax	3,311	2,923
Effects of items which are not deductible:		
- non-taxable income	(12)	(11)
- non-deductible expenses	94	78
<i>Taxable profit for the year</i>	<i>3,393</i>	<i>2,990</i>
Income tax at the rate of 10%	339	299
Effective tax rate (%)	10.2%	10.2%

13. CASH AND BALANCES WITH BANKS

	2013	2012
Current accounts with the Central Bank	84,971	15,000
Current accounts with other banks	49,828	66,790
Cash on hand	12,958	10,035
Provisions for impairment (Note 10)	(14)	(20)
Total	147,743	91,805

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

14. OBLIGATORY RESERVE WITH THE CENTRAL BANK

The obligatory reserve represents amounts required to be deposited with the Central Bank BH ("Central Bank"). Obligatory reserve is calculated on the basis of deposits and borrowings taken regardless of the currency the funds are denominated in.

The basis for calculation excludes:

- borrowings taken from foreign entities,
- funds from government aimed at development projects.

The obligatory reserve requirement represents:

- 10% of deposits and borrowings with maturity of up to one year (short-term deposits and borrowings),
- 7% of deposits and borrowings with maturity over one year (long-term deposits and borrowings),
- for deposited funds exceeding the minimum requirement the rate is based on average rates earned by Central Bank on funds invested up to one month period.

15. PLACEMENTS WITH BANKS

	2013	2012
Placements with banks – gross	36,814	33,420
Provisions for impairment	(27)	(25)
Total	36,787	33,395

Placements with banks include:

- cash deposit with Sberbank BH d.d. Banja Luka in the amount of BAM 71 thousand (BAM 74 thousand as at 31 December 2012) as collateral for the Bank's liabilities to Visa in respect of credit card operations.
- in 2012, cash deposit in the amount of BAM 149 thousand (AED 260 thousand) placed with Dubai Islamic Bank as security for a guarantee issued by that bank on behalf of a customer of the Bank.

As at 31 December 2013 profit rates on placements in EUR were between 1.40% and 4.40% (31 December 2012 – profit rates on placements in EUR were between 2.80% and 5.0% p.a.).

The movements in the provision for impairment of placement with banks are summarized as follows:

	2013	2012
Balance as at 1 January	25	36
Net (decrease)/increase in provisions (Note 10)	2	(9)
Balance as at 31 December	27	25

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

16. FINANCIAL ASSETS AVAILABLE FOR SALE

	2013	2012
Investments in related parties	10	10
Other investments	35	35
Total	45	45

Investments that are not quoted on the Stock Exchange are as follows:

Company	Activity	% of owner-ship	Country
International Islamic rating agency	Rating agency for Islamic Institutions	0.37	Kingdom of Bahrain
Registry of Securities of Federation of Bosnia & Herzegovina	Registration, safekeeping and maintenance of data of securities	0.687	Bosnia and Herzegovina
BBI Real Estate d.o.o.	Real-estate management, development of properties for sale	0.03	Bosnia and Herzegovina

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	2013	2012
<i>Listed equity securities</i>		
Securities – domestic companies	298	322
Securities – foreign companies	244	97
Total	542	419

The Bank incurred a net fair value gain on this portfolio of BAM 107 thousand (2012: net gain of BAM 30 thousand, Note 7). Gain from dividends received from securities listed on a stock exchange amounted to BAM 21 thousand (2012: BAM 12 thousand, Note 7).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

18. FINANCING OF CUSTOMERS

	2013	2012
Corporate		
- short term	67,999	67,376
- long term	158,478	117,849
	226,477	185,225
Retail		
- short term	9,186	9,258
- long term	110,737	85,356
	119,923	94,614
Total gross financing of customers	346,400	279,839
Impairment allowance	(12,363)	(12,002)
Net financing of customers	334,037	267,837

Financing of customers is related to customers in Bosnia and Herzegovina. The movements in impairment allowances of financing of customers are summarized as follows:

	2013	2012
Balance as at 1 January	12,002	9,493
Net increase in provisions (Note 10)	1,198	2,572
Recoveries – repossessed collaterals	(681)	-
Other recoveries	(156)	(63)
Balance as at 31 December	12,363	12,002

Profit rates for financing of customers, given as at 31 December 2013 and 2012 are summarized as follows:

	2013		2012	
	BAM	Annual profit rate	BAM	Annual profit rate
Companies	226,477	2.34% - 14.67%	185,225	2.99% - 12%
Citizens	119,923	2.99% - 12.35%	94,614	3.49% - 15%
Total	346,400		279,839	



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

19. OTHER ASSETS

	2013	2012
Reposessed collaterals	3,711	143
Receivables from other banks in relation to card operations	589	482
Prepaid expenses	246	465
Receivables from State bodies	179	171
Fee receivables	155	115
Material, tools and consumables	24	46
Other assets	397	684
<i>Subtotal</i>	<i>5,301</i>	<i>2,106</i>
Provisions for impairment	(80)	(98)
Total	5,221	2,008

Movement in provision for impairment of other assets is as follows:

	2013	2012
Balance as at 1 January	98	90
Net (decrease) / increase of provisions (Note 10)	(18)	8
Balance at 31 December	80	98

The Bank collected collaterals from debtors for receivables from financing in 2013 in the amount of BAM 3,568 thousand. In case the Bank

decides to use these assets, they will be transferred to property and equipment upon such decision. The Bank intends to sell all other reposessed assets (collaterals acquired by the Bank).



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

20. PROPERTY AND EQUIPMENT

	Land and buildings	Computers	Furniture and equipment	Assets in progress	Leasehold improvements	Total
<i>Cost</i>						
1 January 2012	6,328	1,911	3,844	698	1,304	14,085
Additions	-	-	-	1,003	-	1,003
Transfers	28	148	352	(532)	(33)	(37)
Transfer – intangible assets	-	-	-	(865)	-	(865)
Disposals	-	(40)	(12)	-	-	(52)
31 December 2012	6,356	2,019	4,184	304	1,271	14,134
<i>1 January 2013</i>	<i>6,356</i>	<i>2,019</i>	<i>4,184</i>	<i>304</i>	<i>1,271</i>	<i>14,134</i>
Additions	-	-	-	1,840	-	1,840
Transfers	209	193	1,042	(1,526)	82	-
Transfer - intangible assets	-	-	-	(135)	-	(135)
Transfer - other assets	-	-	-	(12)	-	(12)
Disposals	-	(120)	(91)	-	-	(211)
31 December 2013	6,565	2,092	5,135	471	1,353	15,616
<i>Accumulated depreciation</i>						
1 January 2012	391	1,000	1,974	-	1,127	4,492
Depreciation charge	83	297	457	-	67	904
Disposals	-	(40)	(12)	-	-	(52)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

31 December 2012	474	1,257	2,419	-	1,194	5,344
<i>1 January 2013</i>	<i>474</i>	<i>1,257</i>	<i>2,419</i>	<i>-</i>	<i>1,194</i>	<i>5,344</i>
Depreciation charge	83	286	497	-	42	908
Disposals	-	(109)	(59)	-	-	(168)
31 December 2013	557	1,434	2,857	-	1,236	6,084
<i>Net book value</i>						
31 December 2013	6,008	658	2,278	471	117	9,532
31 December 2012	5,882	762	1,765	304	77	8,790

Assets in progress represent computers and other equipment not yet put in use.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

21. INTANGIBLE ASSETS

	Software and licenses	Assets in progress	Total
<i>Cost</i>			
1 January 2012	970	78	1,048
Additions	-	865	865
Transfers	943	(943)	-
Other increases	35	-	35
31 December 2012	1,948	-	1,948
<i>1 January 2013</i>	<i>1,948</i>	<i>-</i>	<i>1,948</i>
Transfers from property and equipment	-	135	135
Transfers	135	(135)	-
31 December 2013	2,083	-	2,083
<i>Accumulated amortization</i>			
1 January 2012	763	-	763
Amortization charge	265	-	265
31 December 2012	1,028	-	1,028
<i>1 January 2013</i>	<i>1,028</i>	<i>-</i>	<i>1,028</i>
Amortization charge	253	-	253
31 December 2013	1,281	-	1,281
<i>Net book value</i>			
31 December 2013	802	-	802
31 December 2012	920	-	920

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

22. DUE TO CUSTOMERS

	2013	2012
Companies:		
Current/settlement accounts	95,046	72,965
Term deposits	116,110	99,957
Total companies	211,156	172,922
Citizens		
Current/settlement accounts	41,047	14,728
Term deposits	105,487	93,763
Total citizens	146,534	108,491
Total	357,690	281,413

The average profit margin charged on term deposits in 2013 and 2012 was 4.19% and 4.12% respectively.

Accrued profit margin as of 31 December 2013 amounted to BAM 1,849 thousand (2012 – BAM 1,318 thousand).

23. DUE TO OTHER BANKS

	2013	2012
Islamic Development Bank, Saudi Arabia	19,599	19,558
Abu Dhabi Islamic Bank, UAE	9,808	9,808
Albaraka Turk Participation Bank Istanbul, Republic of Turkey	5,869	-
Asya Katilim Bankasi AS, Republic of Turkey	-	5,911
Total	35,276	35,277

Islamic Development Bank, Jeddah, Saudi Arabia deposited an amount of EUR 10 million. The deposit carries an annual profit margin of 6 month LIBOR for EUR plus 1.75 bps for the first 1.5 years of the deposit, and 6 month LIBOR for EUR plus 2 bps for the rest of the period of 1.5 years. Maturity date of the deposit is 26 May 2014.

Master Wakala Agreement was signed between the Bank and Abu Dhabi Islamic Bank on 1 February 2005, in the amount of EUR 5 million. Individual deals under this contract are closed annually. The final maturity date of the deposits is 26 November 2014, with profit rate of 3 month EURIBOR +2,5% bps. Change in profit rate and profit payment is performed annually.

Accrued profit margin as of 31 December 2013 amounted to BAM 71 thousand (2012 – BAM 72 thousand).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

24. BORROWINGS

	2013	2012
T.C.Ziraat Bankasi, Republic of Turkey	68,451	39,118
Ministry of finance Federation of Bosnia and Herzegovina (Foundation ODRAZ)	7,855	12,528
Ministry of finance Federation of Bosnia and Herzegovina (IFAD)	1,298	984
Total	77,604	52,630

The Bank obtains financing from TC Ziraat Bankasi, the Ministry of Finance of Bosnia and Herzegovina and the World Bank bearing profit margins which may be lower than rates at which the Bank could source the funds from government and non-government related lenders. As a result of such financing, the Bank is able to advance funds to specific customers at advantageous rates. Management has considered whether gains or losses should arise on initial recognition of such instruments. As the transactions are with unrelated parties, management's judgment is that these funds and the related lending are at the market rates and no initial recognition gains or losses should arise. In making this judgment management also considered that these instruments are a separate market segment.

In March 2008 the Bank signed contract with the Federal Ministry of Finance related to funds provided by International Fund for Agricultural Development (IFAD) whereby the Bank uses the funds to finance cus-

tomers. Repayment period is 12 years (one-time payment) with a grace period of 2 years before profit margin is charged, at 2% per annum.

A new contract with the Federal Ministry of Finance for IFAD's V project was signed on 20 June 2013. Repayment period is 5 years (bullet repayment) with 2 years grace period. Agreed fixed profit margin amounts to 2% p.a.

The Bank has signed the contract with the Federal Ministry of Finance, and Foundation for Sustainable Development (World Bank) in October 2010. The project funds development of SMEs. The Bank repays principal quarterly in accordance with amortization plans of final users of funds. The maximum duration is 10 years. The final deadline for use of these funds is July 2014. That profit margin is six-month EURO LIBOR +1%.

A new contract, representing a continuation of the project for improving the availability of finance to small and medium enterprises, was signed with the Federal Ministry of Finance and the Foundation for Sustainable Development-Project Implementation Unit of the World Bank on 24 December 2013. Deadline for implementation is 31 July 2016.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

25. OTHER LIABILITIES

	2013	2012
Unallocated payments received	829	799
Liabilities to suppliers	387	399
Donations (Charity fund)	378	350
Liabilities to shareholders of liquidated ICB Bank, FBiH	343	343
Accrued expenses	211	219
Deferred fee income from guarantees	129	163
Managed funds	14	44
Other liabilities	1,043	754
Total	3,334	3,071

Managed funds

Funds managed by the Bank on behalf of third parties do not represent the Bank's assets, and are therefore not included in the statement of financial position.

	2013	2012
Liabilities		
Liabilities to Government – Ministry of Bosnian Homeland War veterans (FBiH)	2,212	2,336
IDB/Merhamet Tetovo	710	-
Foundation Al Mactoum	390	400
Total	3,312	2,736
Assets		
Retail clients -placed funds	3,298	2,692
Total	3,298	2,692
Difference in managed funds	14	44

The Bank does not bear risk for these placements, and charges a management fee ranging between 1% and 2%.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

26. PROVISIONS FOR LIABILITIES AND CHARGES

	2013	2012
Provisions for off-balance liabilities	616	720
Provisions for severance and unused vacation days	142	279
Total	758	999

Movement in provisions for liabilities and charges:

	Provisions for off-balance sheet liabilities	Provisions for severance payments and unused holidays	Total
<i>Balance as at 1 January 2012</i>	1,669	319	1,988
Release of provisions (Note 10)	(949)	(40)	(989)
Balance as at 31 December 2012	720	279	999
<i>Balance as at 1 January 2013</i>	720	279	999
Release of provisions (Note 10)	(104)	(137)	(241)
Balance as at 31 December 2013	616	142	758

Impairment losses for off-balance sheet exposure are recognized through net impairment losses and provisions in the statement of comprehensive income (Note 10).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

27. SHARE CAPITAL

The Bank's ownership structure is as follows:

	31 December 2013			31 December 2012		
	Number of shares	Amount	%	Number of shares	Amount	%
Shareholders						
Islamic Development Bank, Saudi Arabia	431,707	36,393	45.46	269,927	22,755	45.46
Abu Dhabi Islamic Bank, UAE	258,994	21,833	27.27	161,948	13,652	27.27
Dubai Islamic Bank, UAE	258,994	21,833	27.27	161,948	13,652	27.27
Total	949,695	80,059	100.00	593,823	50,059	100.00

In 2013, additional 355,872 shares in the total amount of BAM 30 million were issued and purchased by the existing shareholders. The increase in equity was registered with the Securities commission in the Federation of Bosnia and Herzegovina on 15 November 2013 and with the competent Court on 6 January 2014.

28. EARNINGS PER SHARE

The Bank is calculating and disclosing earning per share in accordance with IAS 33. Basic earnings per share are calculated by dividing net profit attributable to the ordinary shareholders by the weighted average number of ordinary shares for the period. The Bank has no dilutive potential ordinary shares such as convertible debt and share options. Therefore, the Bank diluted EPS and basic EPS are the same.

	2013	2012
Net profit after tax	2,972	2,624
Weighted average number of shares in issue	732,272	593,823
Basic earnings per share (in BAM)	4.06	4.42





NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

29. COMMITMENTS AND CONTINGENCIES

	2013	2012
Performance guarantees	29,876	42,726
Unused credit lines	14,791	10,838
Payment guarantees	9,680	6,894
Letters of credit	3,533	3,388
Total	57,880	63,846

Operating lease commitments

Where the Bank is the lessee the future minimum lease payments under non-cancellable operating leases is included in the table below

	No later than 1 year	1-5 years	Over 5 years	Total
As at 31 December 2013				
Operating lease commitments	752	1,729	88	2,569
Total	752	1,729	88	2,569
As at 31 December 2012				
Operating lease commitments	688	2,442	61	3,191
Total	688	2,442	61	3,191

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

30. RELATED-PARTY TRANSACTIONS

The Bank considers that it has an immediate related party relationship with its key shareholders and their subsidiaries, its associates, members of the Supervisory board, members of the Management board and other senior management of the Bank (together, "key management"), close family members of the key management and legal entities where key management and/or their close family members have control or significant influence.

Transactions with related parties are a part of the daily operations of the Bank.

Transactions with other related parties can be summarized as follows:

	2013		2012	
	Receivables	Payables	Receivables	Payables
Abu Dhabi Islamic Bank, Iraq - other	332	-	-	-
Islamic Development Bank, Saudi Arabia – Shareholder	174	20,320	254	19,597
Dubai Islamic Bank, UAE - Shareholder	80	68	149	-
Abu Dhabi Islamic Bank, UAE - Shareholder	-	9,808	2	9,808
BBI Real Estate d.o.o. - other	2,237	2,283	4,262	2,330
Total	2,823	32,479	4,667	31,735

	2013		2012	
	Income	Expense	Income	Expense
Islamic Development Bank, Saudi Arabia – Shareholder	-	440	-	582
Dubai Islamic Bank, UAE - Shareholder	-	-	-	-
Abu Dhabi Islamic Bank, UAE - Shareholder	-	305	-	344
BBI Real Estate d.o.o. - other	145	89	198	509
Total	145	834	198	1,435

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(All amounts are given in BAM '000, unless otherwise stated)

30. RELATED-PARTY TRANSACTIONS (CONTINUED)

Directors and executives remuneration

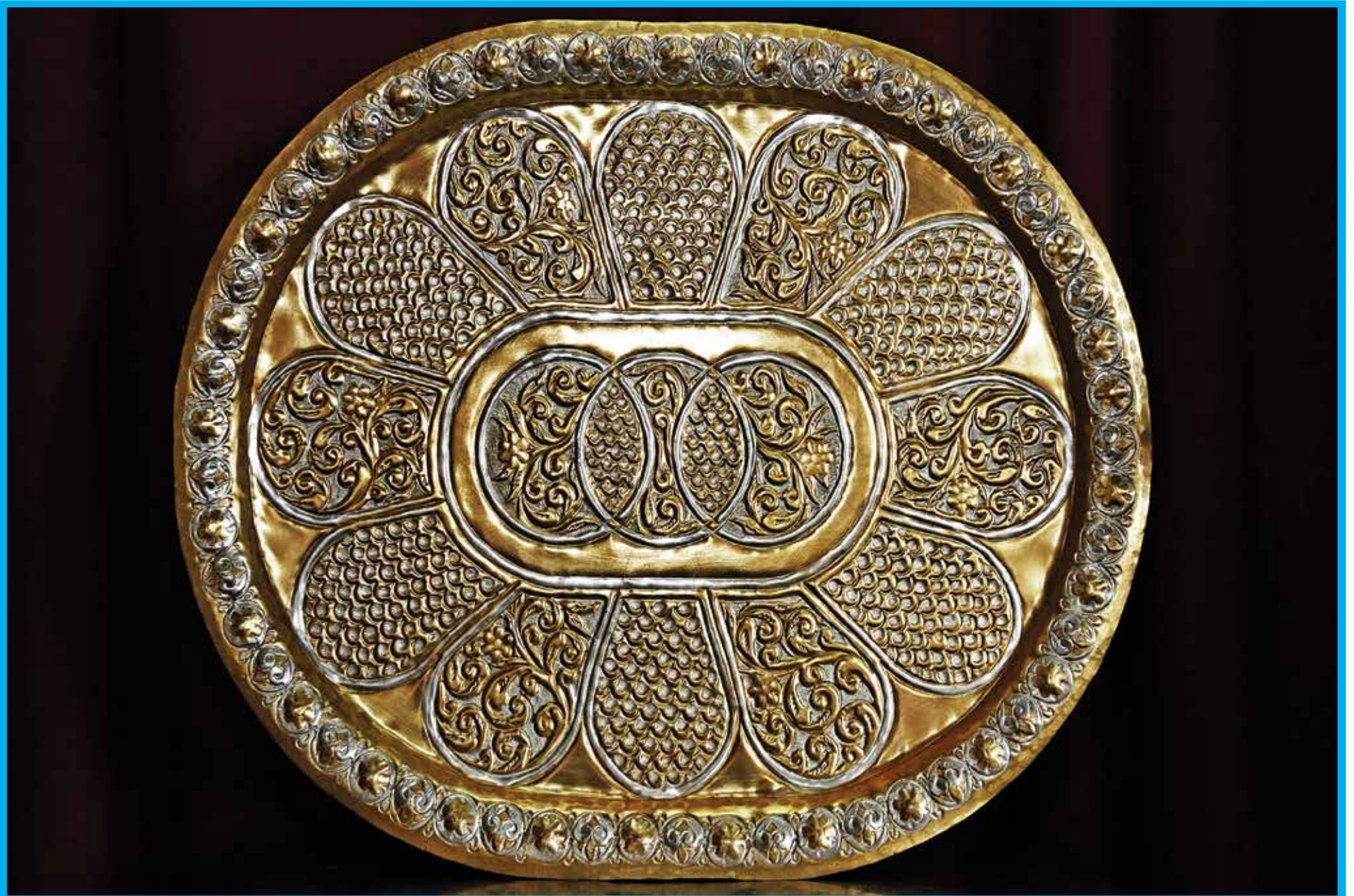
The total remuneration of the Management board and other members of key management were as follows:

	2013	2012
Salaries	470	470
Taxes and contributions on salaries	362	348
Bonuses	111	102
Total	943	920

The compensations for the members of Supervisory board, Sharia board and Audit committee in 2013 amounted to BAM 75 thousand (2012: BAM 76 thousand) and represent the net amount.

31. EVENTS AFTER THE REPORTING PERIOD

There were no material events after the reporting date and until the date of approval of these financial statements requiring adjustment or disclosure in the financial statements.



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