BANK

HYPO ALPE ADRIA
S VAMA. UZ VAS. ZA VAS.

Annual Report 2013

Hypo Alpe-Adria-Bank d.d.
Mostar

Bosnia and Herzegovina

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Mission and Business Principles

Hypo Alpe-Adria-Bank d.d. is a part of the international Hypo-Alpe-Adria banking group. We are striving to apply our international know-how to the local markets. Over 500 employees are servicing around 180,000 clients.

We are available to customers in FBiH not only in our head office in Mostar, but also in a wide business network covering the largest centres of the country. We are among leading banking groups in BiH.

We want to provide a wide range of financial products and quality service to private individuals, to small- and medium-sized enterprises, to corporate customers and to public institutions.

Our products are to offer simple and creative solutions for the financial needs of our clients.

Our mission is driven by following principles:

- success solutions for all stakeholders, i.e. clients, employees and shareholders,
- responsible banking, i.e. transparent business activity with high integrity, consistent with both international standards and local regulations.

Management Board of Hypo Alpe-Adria-Bank d.d.

Dmytro Kolechko
Executive Director

Dragan Kovačević
Executive Director

Alexander Picker
Director

Note:
As of 1st of January, 2014, Alexander Picker took over the position of the CEO of Hypo Alpe-Adria-Bank International AG.
As of this date the members of the Management Board of Hypo Alpe-Adria-Bank d.d. are Dragan Kovačević, Interim Director and Dmytro Kolechko, Executive Director.

Management Board Letter

Distinguished business partners,

Dear colleagues,

Business environment of 2013 has inherited the same negative trends from the previous year having sadly not seen the anticipated major investment cycle, the fault for which lies with still poor macroeconomic situation on one hand and lack of positive changes and processes in the country on the other. Pace of economic recovery is still sluggish, new investments scarce.

The bank has throughout the year 2013 consequently been dealing with burdening left overs rendered by booming expansion coupled with lack of strict risk management in the time of former owners.

Nevertheless, the banking sector of Bosnia and Herzegovina remained stabile and liquid, one of the pillars of the country's economic system and the best ordered sector.

Highly aware of the situation, Hypo Alpe-Adria-Bank d.d. adjusted its operations to the market circumstances by having continued with optimisation of business processes and implementation of numerous initiatives for operating costs reduction, but having not forgotten its business network and clients. There was no shortage of investments in the network and new communicational channels to clients offering innovative and state-of-the-art solutions.

Business strategy of Hypo Alpe-Adria-Bank d.d. was redefined in 2013 in close cooperation between the Bank's Management and Supervisory Board. The limelight of the strategy was placed on clients as the central point. The strategy clearly identified target clients in Retail segment and target industries in Corporate segment. Focus is also on risk, restructuring and collection from active portfolio.

The entire banking sector was struggling in 2013 under the heavy burden of non-performing loans with Hypo Alpe-Adria-Bank d.d. bearing its share of this overall problem. Therefore, the Bank developed and implemented processes of NPLs restructuring, collection and remarketing. Restructuring volumes were slightly lower than in 2012 also due to the framework given by the European Commission.

Besides, in order to cut costs, the Bank applied the Lean Management concept, including inter alia centralisation of activities, establishment of the contact centre, relieving the staff of non-sales office work and outsourcing of non-core banking activities. At the same time the Bank improved the Internal Control System by having established a special organisational unit devoted entirely to this matter.

Furthermore, the Bank founded the Human Resources Committee in charge for running the optimisation and restructuring processes and applying Bank's policies of remuneration, appointment and employment.

The security situation in the Bank has been upgraded through a whole range of various measures. The Security Team was established to deal with physical and IT security and fraud prevention with constant education of employees to this matter.

Two long-term campaigns were successfully launched in Retail: Up-selling and Second Partnership. Interest expenses on deposits side have been reduced, whereas on the other hand, efforts are put in increasing the commission income. New business in Retail segment has gained on quality. A special Retail Credit Committee was established. Throughout the year, uttermost of attention was given to CHF loans and creation of payment facilities for their beneficiaries. A special team was founded for this task.

he Payment Protection Insurance project was successfully implemented in cooperation with the insurance company. With its good results, the project contributed to commission income increase. The Plan 2013 for Retail loans was achieved by 71% (KM 34.2 mil.). 5,479 loans were placed to private individuals.

The Card Operations Team services users of 120,993 cards and work of 78 ATMs.

Corporate business was tailored to external factors and limitations, which resulted in clearly lower volumes. Monitoring initiative in Corporate helped to sustain performing loans, what now has developed into an ordinary task in Corporate segment.

Legal Entities' Domestic Payments Centralisation project was launched in the last quarter of 2013 and is expected to finish in first half of 2014.

The Bank was recapitalized on 27 December 2013 from the reserves fund out of already existing funds in amount of KM 97 million (permanently tied special-purpose deposit in amount of KM 65 million and refinancing line in amount of KM 32 million).

This was an additional boost for the Bank's capital base. The Bank is more than just liquid and very well capitalized, meeting thus basic standards of the banking sector. Its capital adequacy rate was 17.9% at the end of 2013 which is above the prescribed minimum.

The Bank is consistently undergoing restructuring and preparation for privatisation. Focus of all activities of the Group is on its the traditional core markets: Bosnia and Herzegovina, Slovenia, Serbia, Montenegro and Croatia.

If all undertaken activities are viewed together, one conclusion poses itself and that is that the entire Hypo Group, including Hypo BiH, has put enormous efforts in successfully restructuring its banks, but having not neglected its core operations and needs of its clients' and the market.

The Bank entered the business year 2014 highly motivated with a carefully prepared Business Plan, continuing with its role of a trustworthy financial partner to all its clients.

Management Board of Hypo Alpe-Adria-Bank d.d.

Dmytro Kolechko
Executive Director

Dragan Kovačević
Interim Director

Socially Responsible Business Activities

Hypo Alpe-Adria-Bank d.d. has been acting as a socially responsible institution ever since it has entered the market of Bosnia and Herzegovina, striving all the time to align its activities with the best practices of the developed world countries as much as possible, especially when it comes to relation with its staff, clients, business partners, shareholders, local community and environmental protection.

Human Resources Management (HRM)
The Bank ended the business year of 2013 with total of 517 employees. Employees' qualification structure is on a very high level – 67.12% of the Bank's employees have university or two-year post-secondary school qualifications, many have a master's or doctor's degree. The employees' age structure is young, the average age being 39.38.

For the purpose of realising the planned goals, Hypo Alpe-Adria-Bank d.d. has continued with its practice of participating in and attending educations and advanced trainings in the country and abroad with the goal to acquire new knowledge and skills that are necessary for further improvement of work organisation and development of business.

Managerial skills are developed in the Hypo Academy and at various seminars, the main purpose of which is to achieve the best practice and acquire a new „know-how“ to be applied in business processes of the Bank.

To that end, a special training was organised and implemented in cooperation with the IEDC-Bled School of Management.

Reorganisation of business activities and a permanent process of adjustment to the market requirements called for organisation of various specialized educative programmes designed for particular target groups, such as for example risk management for the employees involved in the lending process in segments of Corporate Banking, Public, SME and Retail.

Relation towards clients and business partners
Hypo Alpe-Adria-Bank d.d. considers clients' trust to be its most valuable asset and always tries hard to prove worthy of it.

Consequently, business ethics is one of the Bank's highest priorities. The Bank never fails to timely inform its clients and business partners about any changes related to its operations, new products, services, interests, fees, commissions and similar issues.

In its marketing and corporate communication activities, the Bank is strongly committed to code of ethics and truthfulness.

When it comes to the clients' rights, the Bank introduced the position of the Clients' Complaints Manager, who is in charge with tackling verbal and written complaints of clients about the quality of Bank's services, products and Bank's approach to its clients in general.

Complaints may be filed verbally directly or via phone or in written, via post or electronic mail.

What is more, another informative channel was opened in 2013 – Social networks TW&FB accounts, where clients may obtain all information about business operations of the Bank, its products and services.

Relation towards local community (support to culture, art, sport and educational and health-service public institutions and associations)
Hypo Alpe-Adria-Bank has for many years already been very supportive of the local community, providing significant and budget-fitting financial support to education and health-service public institutions and social-values promoting cultural, art and non-commercial sport events, driven by a wish to support the local community and to be an integral part of the local identity.

In 2013, the Bank donated over KM 190,000 to sport, culture and education.

Bodies of Hypo Alpe-Adria-Bank d.d.

SUPERVISORY BOARD

Rainer Sichert, President
Wolfgang Moesslacher, Deputy President until January 21st, 2013
Neven Raic, Deputy President from January 21st, 2013
Stephan Holzer, member
Sebastian Firlinger, member
Blaž Brodnjak, member until January 21st, 2013
Gottwald Kranebitter, member from January 21st, 2013

MANAGEMENT BOARD

Alexander Picker, Director
Dragan Kovačević, Executive Director
Dmytro Kolechko, Executive Director

AUDIT COMMITTEE MEMBERS

Đorđe Lazović , President
Maria Auer, member
Andrea Castellarin, member
Sandra Baier
Dejan Rajevac, member until September 25th, 2013
Miroslav Pasterk, member from September 25th, 2013

INTERNAL AUDITOR

Stana Grgić

SHAREHOLDERS WITH 5% OR MORE SHARES WITH A VOTING RIGHT

Hypo Alpe-Adria-Bank International AG, Klagenfurt

Organizational Structure

HYPO ALPE-ADRIA-BANK D.D. MOSTAR

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

Responsibility for the Financial Statements

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

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

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

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

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

Signed on behalf of the Management Board

HYPO ALPE-ADRIA-BANK MOSTAR

Dragan Kovačević, Acting Director

Dmytro Kolechko, Executive Director

Hypo Alpe-Adria-Bank d.d. Mostar
Kneza Branimira 2b
88000 Mostar
Bosnia and Herzegovina

15 April 2014

Independent Auditor's Report

To the shareholders of Hypo Alpe-Adria-Bank d.d. Mostar:

We have audited the accompanying unconsolidated financial statements of Hypo Alpe-Adria-Bank d.d. Mostar (the "Bank"), set out on pages 4 to 53, which comprise of the unconsolidated balance sheet as at 31 December 2013, and the unconsolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

Opinion
In our opinion the unconsolidated financial statements present fairly, in all material respect the financial position of Hypo Alpe-Adria-Bank d.d. Mostar as of 31 December 2013, and of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphases of matters

Concentration of funding
We draw attention to Note 22 of these unconsolidated financial statements which refer to the Bank's financing by Hypo Alpe-Adria Bank International AG, Klagenfurt, Austria (the Parent). The Bank is dependent upon the continued funding and other financial support from its Parent, under the currently agreed financial terms.

Consolidated financial statements
Without qualifying our opinion, we draw attention that consolidated financial statements of the Group prepared in accordance with International Financial Reporting Standards have been issued separately. In the accompanying unconsolidated financial statements investments in subsidiaries and associates are valued at cost. For a better understanding of the Group as a whole, users should read the consolidated financial statements.

Deloitte d.o.o.

Sead Bahtanović, director and licenced auditor

Deloitte
d.o.o.
Jadranska bb
71000 Sarajevo
ID: 4200047390000

Sabina Softić, partner and licensed auditor

Sarajevo, Bosnia and Herzegovina

15 April 2014

Unconsolidated income statement
for the year ended 31 December 2013
(all amounts are expressed in thousands of KM)

	Notes	2013	2012
Interest income	5	56,686	70,304
Interest and similar expenses	6	(24,361)	(35,455)
Net interest income		**32,325**	**34,849**
Fee and commision income	7	14,284	15,669
Fee and commision expense		(3,205)	(4,897)
Net fee and commission income		**11,079**	**10,772**
Net income on financial operations	8	4,152	3,339
Other operating income	9	3,860	7,784
Operating income		**51,416**	**56,744**
Personnel expenses	10	(17,991)	(19,150)
General and administrative expenses	11	(40,490)	(26,856)
Depreciation and amortization expense	21	(5,869)	(6,125)
Operating expenses		**(64,350)**	**(52,131)**
(LOSS) / PROFIT BEFORE IMPAIRMENT LOSSES, PROVISIONS AND INCOME TAX		**(12,934)**	**4,613**
Impairment losses and provisions	12	(109,476)	(22,917)
Collected written-off receivables		6,268	7,220
LOSS BEFORE INCOME TAX		**(116,142)**	**(11,084)**
Income tax	13	-	-
NET LOSS FOR THE YEAR		**(116,142)**	**(11,084)**
Basic loss per share (KM)	34	(228.87)	(22.97)

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

Unconsolidated statement of comprehensive income
for the year ended 31 December 2013
(all amounts are expressed in thousands of KM)

	Notes	2013	2012
Loss for the year		**(116,142)**	**(11,084)**
Other comprehensive income			
Sale of financial assets available-for-sale		(1,723)	-
Deferred tax on financial assets available-for-sale	13	116	-
Net gain arising on revaluation of available-for-sale financial assets during the year	18	21	573
Other		7	(26)
Total comprehensive loss for the year		**(117,721)**	**(10,537)**

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

Unconsolidated balance sheet
as at 31 December 2013
(all amounts are expressed in thousands of KM)

	Notes	31 December 2013	31 December 2012
ASSETS			
Cash and due from banks	14	361,080	270,215
Obligatory reserve at the Central Bank of Bosnia and Herzegovina	15	75,447	87,656
Placements with other banks	16	27,535	53,565
Loans and advances to customers	17	654,187	885,383
Financial assets available for sale	18	31,304	25,931
Investments in subsidiaries	19	2,711	2,711
Deferred tax assets	13	2,288	2,172
Other assets	20	13,500	15,146
Tangible and intangible assets	21	50,073	64,347
Total assets		**1,218,125**	**1,407,126**
LIABILITIES			
Due to other banks	22	344,873	288,863
Due to customers	23	586,572	757,999
Subordinated debt	24	-	65,000
Other liabilities	25	31,751	20,357
Provisions for financial commitments and contingencies	26	3,579	2,845
Total liabilities		**966,775**	**1,135,064**
SHAREHOLDERS' EQUITY			
Share capital		213,000	213,000
Reserves		230,580	133,571
Regulatory reserves		133,391	133,391
Investment revaluation reserves		(1,043)	536
Retained losses		(324,578)	(208,436)
Total shareholders' equity		**251,350**	**272,062**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,218,125**	**1,407,126**
FINANCIAL COMMITMENTS AND CONTINGENCIES	26	93,690	124,720

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

Signed on behalf of Hypo Alpe-Adria-Bank d.d. Mostar on 15 April 2014:

Dragan Kovačević
Acting Director

Dmytro Kolechko
Executive Director

Unconsolidated statement of cash flows
for the year ended 31 December 2013
(all amounts are expressed in thousands of KM)

	2013	2012
Operating Activities		
Loss before income tax	(116,142)	(11,084)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,869	6,125
Provision for legal cases	15,542	104
Impairment losses and provisions	109,476	22,917
Provision for employee benefits	(227)	(286)
Loss on disposal of tangible and intangible assets	429	61
Gain on sale of available for sale investments	(1,766)	-
Increase in deferred tax assets	(116)	-
Dividend income	-	(836)
Foreign exchange adjustment	(583)	(329)
Cash flow before changes in operating assets and liabilities:	12,482	16,672
Net decrease in obligatory reserve with the Central Bank of Bosnia and Herzegovina	12,209	44,859
Net decrease in placements with other banks, before impairment losses	26,057	102,161
Net decrease in loans and advances to customers, before impairment losses	136,171	29,064
Net (increase) / decrease in other assets, before impairment losses	(1,472)	10,404
Net increase in due to other banks	90,029	29,597
Net decrease in due to customers	(171,427)	(126,104)
Net decrease in other liabilities	(3,921)	(14,564)
NET CASH FROM OPERATING ACTIVITIES	**100,128**	**92,089**
Investing Activities		
Net increase of tangible and intangible assets	(2,936)	(2,510)
Purchase of assets available for sale	(6,952)	(24,004)
Net proceeds from sale assets available for sale	1,766	-
Proceeds from sale of tangible and intangible assets	869	275
Dividends received	-	836
NET CASH USED IN INVESTING ACTIVITIES	**(7,253)**	**(25,403)**
Financing Activities		
Increase in share capital	-	20,000
Increase in capital reserves	-	20,000
(Decrease) / increase in borrowings	(2,010)	17,417
NET CASH (USED IN) / PROVIDED BY FINANCING ACTIVITIES	**(2,010)**	**57,417**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**90,865**	**124,103**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**270,215**	**146,112**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**361,080**	**270,215**

The accompanying notes form an integral part of these financial statements

Unconsolidated statement of changes in shareholders' equity
for the year ended 31 December 2013
(all amounts are expressed in thousands of KM)

	Share capital	Reserves	Regulatory reserves	Investment revaluation reserves	Retained losses	Total
31 December 2011	**193,000**	**113,571**	**129,054**	**(11)**	**(197,278)**	**238,336**
Correction of error	-	-	-	-	4,263	4,263
Regulatory requirements	-	-	4,337	-	(4,337)	-
Capital increase	20,000	20,000	-	-	-	40,000
Net loss for the year	-	-	-	-	(11,084)	(11,084)
Other comprehensive income for the year	-	-	-	547	-	547
Total comprehensive loss	-	-	-	*547*	*(11,084)*	*(10,537)*
31 December 2012	**213,000**	**133,571**	**133,391**	**536**	**(208,436)**	**272,062**
Capital increase (Note 1)	-	97,009	-	-	-	97,009
Net loss for the year	-	-	-	-	(116,142)	(116,142)
Other comprehensive loss for the year	-	-	-	(1,579)	-	(1,579)
Total comprehensive loss	-	-	-	*(1,579)*	*(116,142)*	*(117,721)*
31 December 2013	**213,000**	**230,580**	**133,391**	**(1,043)**	**(324,578)**	**251,350**

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

(all amounts are expressed in thousands of KM)

1. GENERAL

History and incorporation

Hypo Alpe-Adria-Bank d.d. Mostar (the ''Bank") got the approval from the Banking Agency of Federation of Bosnia and Herzegovina ("FBA") dated 17 January 2000 and the Bank was registered at the County Court in Mostar on 21 January 2000.

The Bank's main office is located in Mostar, Kneza Branimira 2b. The Bank conducts its operations through the headquarters in Mostar, 40 branch offices and 1 office in the Federation of Bosnia and Herzegovina.

Principal activities of the Bank:

The Bank's main operations are as follows:

1. accepting deposits from the public and placing of deposits;
2. providing current and term deposit accounts;
3. granting short- and long-term loans and guarantees to the local municipalities, corporate customers, private individuals and other credit institutions dealing with finance lease and foreign exchange transactions;
4. money market activities;
5. performing local and international payments;
6. foreign currency exchange and other banking-related activities;
7. providing banking services through an extensive branch network in the Bosnia and Herzegovina.

Supervisory Board	
Rainer Sichert	President
Wolfgang Edelmueller	Vice-president (from 10 February 2014)
Neven Raić	Vice-president (from 21 January 2013 – until 10 February 2014)
Wolfgang Mősslacher	Vice-president (until 21 January 2013)
Neven Raić	Member (from 10 February 2014)
Stephan Holzer	Member
Sebastian Firlinger	Member
Gottwald Kranebitter	Member (from 21 January 2013 – until 10 February 2014)
Blaž Brodnjak	Member (until 21 January 2013)

Board of Directors	
Dragan Kovačević	Acting Director (from 1 January 2014)
Alexander Picker	Chief Executive Officer (until 31 December 2013)
Dmytro Kolechko	Executive Director

(all amounts are expressed in thousands of KM)

1. GENERAL (CONTINUED)

The global ultimate parent for the Bank, as well as for the Hypo Alpe-Adria-Bank International AG, Klagenfurt is the Government of the Republic of Austria.

The shareholding structure is as follows:

	31 December 2013		31 December 2012	
	Paid capital	Ownership %	Paid capital	Ownership %
Hypo Alpe-Adria-Bank International AG, Klagenfurt	212,997	99.999	212,997	99.999
Small shareholders	3	0.001	3	0.001
Total	**213,000**	**100.00**	**213,000**	**100.00**

During 2013, the Management of Hypo Alpe-Adria-Bank International AG made a decision on shareholders' equity increase of the Bank for KM 97 million. The increase of Bank's shareholders' equity was realized through the increase of capital reserves for in amount KM 97 million, converting part of the debt into equity, specifically a subordinated debt in amount of KM 65 million and KM 32 million of deposits from Parent Bank, Hypo Alpe-Adria Bank International AG, Klagenfurt.

Based on Assembly decision as of 27 December 2013, Hypo Alpe-Adria-Bank International AG, Klagenfurt Bank increased the shareholders' equity of the Bank through an increase in reserves of KM 97 million. For that purpose the Bank did not issue additional shares.

Debt and/or equity instruments of the Bank are not traded in a public market and these financial statements are not under the regulative of the Security Commission for the purpose of issuing any class of instruments in a public market. Therefore, the Bank considers that it operates in a single business segment, and a single geographical segment, that is the provision of banking services in Bosnia and Herzegovina.

As of 31 December 2013, the required level of regulatory reserves was KM 72,306 thousand. Already created regulatory reserves on the same date amounted to KM 133,391 thousand. Hence, the Bank has created more regulatory reserves than required in the amount of KM 61,085 thousand. The Bank will in accordance with regulatory requirements take this only into consideration when calculating the capital adequacy.

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and Interpretations effective in current period

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

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

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.1 Standards and Interpretations effective in current period (continued)

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

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

2.2 Standards and Interpretations in issue not yet adopted

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

- IFRS 9 "Financial Instruments" and subsequent amendments (effective date was not yet determined),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 "Separate Financial Statements" – Investment Entities (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),
- Amendments to IAS 32 "Financial instruments: presentation" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 36 "Impairment of assets" - Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014),
- Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- IFRIC 21 "Levies" (effective for annual periods beginning on or after 1 January 2014).

The Bank has elected not to adopt these standards, amendments and interpretations in advance of their effective dates.

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.2 Standards and Interpretations in issue not yet adopted (continued)

The new standard IFRS 9 "Financial Instruments: Classification and Measurement" is expected to lead to material adjustments for Hypo Alpe Adria in relation to the classification and measurement of financial instruments. In future, instead of the previous four measurement categories of IAS 39 (see note (13) Financial Instruments: Recognition and Measurement (IAS 39)), there will only be two measurement categories under IFRS 9, for which classification will be determined based either on the business model or the characteristics of the financial asset. The measurement of these assets is primarily carried out at amortised cost if the objective of the business model is to hold the financial asset to collect the contractual cash flows or if the contractual terms of the financial asset stipulate interest payments or principal payments on specified dates. Should it not be possible to define these two factors, the financial instruments must in general be measured at fair value through profit or loss. All equity investments within the scope of IFRS 9 are to be measured at fair value in the statement of financial position, with value changes recognised in profit or loss. The only possible exception is for those equity investments measured at fair value for which the entity has elected to report value changes in "other comprehensive income" (at fair value through other comprehensive income, FVTOCI). If an equity investment is not held for trading, an entity can make an irrevocable election at initial recognition to measure it at fair value through other comprehensive income (FVTOCI) and present the changes in other comprehensive income with only dividend income recognised in profit or loss. Furthermore, it will no longer be compulsory to account separately for embedded derivatives; instead these will be measured as an entire financial instrument at fair value through profit or loss. In July 2013, the IASB provisionally decided to postpone the date on which IFRS 9 comes into force until it is finally defined when the complete version of the standard will be published. In February 2014, the IASB announced its provisional decision to set the date of initial application as 1 January 2018. At the time of writing, IFRS 9 has not yet been adopted in European law as part of the Endorsement Process. As IFRS 9 had not yet been fully published, final quantification of the effects is not possible at present.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board and regulations of the Federal Banking Agency governing financial reporting of banks.

Basis of preparation

These financial statements have been prepared on a historical cost basis except for certain properties and financial instruments that are measured at revalued model or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

These financial statements represent the general-purpose separate financial statements of the Bank. The financial statements were prepared for the reporting period from January 1, 2013 to December 31, 2013 in compliance with the accounting regulations of the Federation Bosnia and Hercegovina and regulations of the Federal Banking Agency governing financial reporting of banks. These statutory financial statements are prepared for the purpose of compliance with legal requirements and for general information and not for any specific purpose, user or transaction. Accordingly, users should not rely exclusively on these financial statements and should undertake other appropriate inquiries before making decisions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

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

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

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

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

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

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

Going concern

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

Position of Hypo Alpe-Adria-Bank International AG. Klagenfurt. Austria (the Parent)

Following the acquisition of 100% of the shares in Hypo Alpe-Adria-Bank International AG by the Republic of Austria completed on 30 December 2009. Hypo Alpe-Adria-Bank International AG and its subsidiaries (together Hypo Group Alpe Adria or HGAA) is currently in the process of restructuring.

In the process of Joint Risk Assessment & Decision („JRAD 1“) initiated by the supervising bodies in 2011. the condition was placed for Hypo Alpe Adria to reach the minimal capital adequacy ratio of 12.04%. as well as to cover the difference between the expected loss from credit risk and the total funds for covering risk losses with the realization period until 31 December 2012. In 2012. the Bank succeeded in concluding the agreement on bank recapitalization in the amount of EUR 1.5 billion with its owners with approval of the European Commission. This recapitalization consisted of capital increase by the Republic of Austria in the amount of EUR 500 million and issue of a subordinated loan with the state guarantees in the amount of over EUR 1.0 billion. As a consequence. as of 31 December 2012 Hypo Alpe Adria recorded the capital adequacy ratio above the given minimum value from the Decision.

In 2012 the supervisory bodies repeated the risk assessment and the necessary capital assessment („JRAD 2“). Supervision based on data from April 2012 established the minimum necessary quota of own capital for the Group accounting of 12.40 %. This Decision was made in mid February 2013 and the Bank was given the deadline for realization of 31 December 2013. .

On 3 September 2013 the European Commission delivered a final ruling on the state aid investigation into Hypo Alpe Adria which began in May 2009. The basis for the ruling was the final bank restructuring plan submitted at the end of June 2013. The bank is required to comply with the rules for new business included in the restructuring plan until re-privatisation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Going concern (continued)

Position of Hypo Alpe-Adria-Bank International AG. Klagenfurt. Austria (the Parent) (continued)

Furthermore. it is intended that the Bank's SEE network be re-privatised by mid-2015. The closing of the sale of the Austrian subsidiary bank Hypo Alpe-Adria-Bank AG. which was planned for mid-2014. was actually finalised in 2013. Furthermore. the Italian subsidiary bank was forced to close down its lending operations in 2013 and has therefore been allocated for winding down. Compliance with the restructuring plan and the behavioural measures that have been imposed will continue to be monitored by an independent monitoring trustee appointed by the European Commission. In accordance with the provisions of the final European Commission ruling. the subsidiary bank Hypo Alpe-Adria-Bank AG (Austria) was sold on 19 December 2013 (closing) following a bidding process lasting several months and careful consideration of submitted offers.

This signified the completion of a major milestone in the European Commission's re-privatisation requirements. In order to prepare for the sale of the SEE network that is earmarked for re-privatisation further portfolio transfers were carried out in wind-down companies in Slovenia. Croatia. Serbia. Bosnia and Herzegovina and Montenegro. leading to a normalisation of the key financial figures of the units concerned. particularly net interest income. NPL ratios (non-performing loans) and refinancing capacity (loan/deposit ratio) and a strengthening of key capital figures. These measures were requested in the European Commission ruling on 3 September 2013 in order to increase the attractiveness of the SEE network for potential investors. Further preparatory activities for this sale included the establishment of a network-wide partnership structure in the SEE network and the licensing of the planned SEE management holding company for the next few months. When it comes to the remaining wind-down portfolios. the European Commission ruling provides for a swift. intensive wind-down of these units and portfolios.

The Hypo Alpe Adria (HGAA) restructuring plan reflects the European Commission's requirements concerning the wind-down of the Italian subsidiary bank. the implementation of measures to aid sale in the form of portfolio transfers. more conservative risk assessments of the SEE portfolio as well as the accelerated sale of the portfolio allocated for wind-down. The resulting losses in the period between 2013 and 2017 mainly concern anticipated disposal losses from the sale of participations and increased risk provisions; these losses were estimated at between EUR -3.58 bn (best case scenario) and EUR -6.33 bn (pessimistic stress case scenario) in the restructuring plan. The corresponding recapitalisation requirements stand at between EUR 2.65 bn (base case scenario) and EUR 5.40 bn (pessimistic stress case scenario) and were approved by the European Commission. The Republic of Austria injected a total of EUR 1.75 bn of capital into the bank in 2013 over the course of three recapitalisation measures. Together with another capital measure in April 2014 totalling EUR 0.75 bn. a total of EUR 2.50 bn was injected into the bank. leaving a remaining EUR 2.90 bn in capital measures still available under the state aid framework approved by the European Commission.

Once it became evident in mid-2013 that the European Commission's state aid investigation would soon be completed. the Austrian Chancellor and Vice Chancellor formed an expert task force in May 2013 as part of the "Lux" project to investigate the various options available in relation to the implementation of the EU restructuring plan and the best possible liquidation of Hypo Alpe-Adria-Bank International AG's assets within the scope of a wind-down unit. The task force was headed up by then Chairman of the Supervisory Board Dr. Klaus Liebscher until February 2014. Following Dr. Liebscher's departure. Austrian central bank governor Dr. Ewald Nowotny took over leadership of the task force. On 18 March 2014. following a request by the Federal Minister of Finance. the Austrian government ruled in favour of the implementation of the task force's proposal and the conversion of Hypo Alpe-Adria-Bank International AG into a deregulated wind-down company under private law without any general state guarantee until September 2014. The bank is currently focusing on putting these requirements in place.

Within the context of the Joint Risk Assessment & Decision Process ("JRAD") issued by regulatory authorities that was started in 2011. Hypo Alpe Adria was required to achieve a defined minimum total capital ratio and ensure that the deficit between the expected losses in the area of credit risk and total risk provisions (shortfall) is covered from the date of implementation onwards. At the current time. there has been no new ruling on the JRAD investigation performed by regulatory authorities in 2013 (JRAD III). meaning that the requirements of JRAD II must be complied with as at 31 December 2013.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Going concern (continued)

Position of Hypo Alpe-Adria-Bank International AG. Klagenfurt. Austria (the Parent) (continued)

Given current capital funds of EUR 2.7 bn and risk-weighted assets (RWA) of EUR 18.4 bn. the group's own capital funds ratio is 14.87%. As a result. the first requirement under JRAD II of maintaining an own funds ratio of 12.4% has been met. Current regulatory own capital funds (EUR 2.7 bn) as well as ineligible Tier II components (ineligible due to the cap defined by Basel II) of EUR 0.6 bn can be applied in terms of compliance with the second requirement of JRAD II. namely the coverage of the shortfall through own capital funds.

This means that the funds necessary to cover the own capital funds requirement and the shortfall of a total of EUR 2.62 bn are offset by risk capital of EUR 3.37 bn. This equates to a surplus of EUR 0.75 bn. meaning that the second requirement has also been met. Should the SEE network be re-privatised in the near future. it must be expected that the value of the book equity of these banks. approximately EUR 1.3 bn. will not be able to be obtained on the market. Should there be a material loss before the implementation of the deregulated wind-down unit planned by the government. non-compliance with JRAD capital requirements cannot be ruled out.

Owing to the continued problematic macroeconomic environment and as a result of the obligations that must be met under the EU's group restructuring plan. the Hypo Alpe Adria group's holding company Hypo Alpe-Adria-Bank International AG had to take into consideration all material losses on participations as well as on intragroup lending and third-party customer lending in its 2013 separate annual financial statements (at the level of the single institution UGB/BWG). Even in consideration of the three recapitalisation measures implemented in 2013 totalling EUR 1.75 bn. the remaining core capital of the bank was unable to be prevented from falling to roughly EUR 0.18 bn. The own capital funds ratio of the parent company. which is determined pursuant to regulatory requirements. amounted to 1.87% as at 31 December 2013 and therefore did not meet the statutory minimum of 8.0% defined under Basel II. The core capital gap for meeting the regulatory requirements amounts to EUR 0.50 bn. The bank fulfilled its statutory obligations and informed the regulatory authorities immediately of these circumstances. The group's consolidated equity. in which impairment write-downs from lower-than-expected disposal proceeds were not to be considered. came to 14.87% as at 31 December 2013 and met legal requirements (see above).

In the general shareholders' meeting of Hypo Alpe-Adria-Bank International AG held on 9 April 2014. the Republic of Austria. as the owner of the bank. agreed a capital injection in the form of a share capital increase of EUR 0.75 bn which was carried out on 11 April 2014. This capital measure was aimed at guaranteeing compliance with regulatory requirements until the implementation of a wind-down unit planned for September that. in future. will not require a banking licence and will therefore not be subject to any regulatory minimum capital requirements as defined by the Austrian Banking Act (BWG). The Executive Board based its assessment of Hypo Alpe Adria's continuation as a going concern on the assumptions underlying the group's restructuring plan approved by the European Commission and which provides for further capital measures to maintain the going concern assumption and cover anticipated losses over the course of the portfolio wind-down.

Position of the Hypo Alpe-Adria-Bank d.d.Mostar

The Bank conducted its business operations in 2013 in line with the legal framework of the Federation of Bosnia and Herzegovina and Bosnia and Herzegovina.

As of 27 December 2013 increase of Bank's equity was realized through the increase of capital reserves for in amount KM 97 million, converting part of the debt into equity, specifically a subordinated debt in amount of KM 65 million and KM 32 million of deposits from Parent Bank, Hypo Alpe-Adria Bank International AG, Klagenfurt.

As at 31 December 2013 the Bank's capital adequacy ratio was with 17,9% above the statutory minimum limits prescribed for the Bank of 14.5% (31 December 2012: 21,0%). Data are disclosed under Note 32. The decrease in capital adequacy was the loss of 2013.in amount KM 116.141 thousand neutralized only partly by a capital increase, as part of subordinated debt which influences capital adequacy ratio was transferred from Tier II to Tier I.

The Bank has access to sources of financing for liquidity issue in total amount of KM 53,867 thousand at the balance sheet date (2012: KM 203,406 thousand).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Going concern (continued)

Position of the Hypo Alpe-Adria-Bank d.d.Mostar

The Bank expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets. The Bank expects to maintain its debt to capital ratio. (Note 32)

In addition Hypo Alpe-Adria-Bank dd Mostar has received from the parent (Hypo Alpe-Adria-Bank International AG) the letter of support acknowledging that Hypo Alpe-Adria-Bank d.d. Mostar will be allocated with the necessary funding in accordance with the approved provided limits to finance their business operations and that Hypo Alpe-Adria-Bank International AG has no intention to withdraw the deposits and loans provided by them before the date of their maturity. (Note 22)

Given the strong capital and liquidity positions of the Bank and the commitment of the parent to continue to support the Federation of Bosnia and Herzegovina subsidiary the management has concluded that it is appropriate for these financial statements to be prepared on the going concern basis, which assumes continuity of the Bank's normal business activities in the foreseeable future.

Equity investments

A subsidiary is an entity which is controlled by the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Investments in subsidiaries in these financial statements are stated at cost less any impairment in the value of individual investment needed.

Interest income and expense

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

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

Fee and commission income and expense

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

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

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

Taxation

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)
The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Bank has the ability and intention to settle on a net basis.

Cash and cash equivalents
For the purpose of reporting cash flows, cash and cash equivalents are defined as cash, balances with the Central Bank of Bosnia and Herzegovina ('CBBH') and current accounts with other banks. Cash and cash equivalents excludes the compulsory minimum reserve with CBBH as these funds are not available for the Bank's day to day operations. The compulsory minimum reserve with the CBBH is a required reserve to be held by all commercial banks licensed in Bosnia and Herzegovina.

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

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

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

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

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

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

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

Financial assets available for sale
Listed shares and listed redeemable notes held by the Bank that are traded in an active market are classified as being available for sale and are stated at fair value. Fair value is determined in the manner described in previous paragraphs. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Financial assets available for sale (continued)

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on available for sale equity instruments are recognised in profit or loss when the Bank's right to receive payments is established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loan and receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method, less any allowance for impairment. Third party expenses, such as legal fees received from customers, incurred in securing a loan are treated as part of the cost of the transaction.

Impairment of financial assets

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

For all other financial assets objective evidence of impairment could include:

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

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

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognized.

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

Derecognition of financial assets

Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank continues to recognize the financial asset.

Financial liabilities

Classification as debt or equity

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

Equity instruments

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

(all amounts are expressed in thousands of KM)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Financial guarantee contract liabilities

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

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

Financial liabilities

Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities". The Bank creates one category of financial liabilities, for which basis of accounting is disclosed below.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

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

Derecognition of financial liabilities

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

Tangible and intangible assets

Tangible and intangible assets are started at cost less accumulated depreciation and accumulated impairment losses, if any. 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 capitalised. Gains or losses on the retirement or disposal of tangible and intangible assets are included in the statement of income in the period in which 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 on a straight-line basis over the estimated useful life of the applicable assets and based upon the application of the following annual percentages to historical costs:

	2013	2012
Buildings	2%	2%
Office equipment	10-33.3%	10-33.3%
Vehicles	25%	25%
Software and other intangible assets	20%	20%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tangible and intangible assets (continued)

Impairment

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

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Employee benefits

During its normal operating activities, the Bank pays payroll taxes and contributions on behalf of its employees, as well as meal and vacation allowances according to the local legislation. These expenses are recognized in the income statement in the same period as the related salary costs.

According to the local legislation and internal Employment rulebook, the Bank makes retirement severance payments of minimum three average monthly salaries of the employee in question or three average salaries of the Bank paid in the period of the last three months, depending on what is more favourable to the employee.

Foreign currency translation

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

The Bank values its assets and liabilities by middle rate of Central Bank of Bosnia and Herzegovina valid at the date of balance sheet. The principal rates of exchange set forth by the Central Bank and used in the preparation of the Bank's balance sheet at the reporting dates were as follows:

31 December 2013	EUR 1 = KM 1.95583	USD 1 = KM 1.41902
31 December 2012	EUR 1 = KM 1.95583	USD 1 = KM 1.48360

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting period date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Regulatory requirements

The Bank is subject to the regulatory requirements of the Banking Agency of the Federation of Bosnia and Herzegovina.

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATIONS

In the application of the Bank's accounting policies, which are described in note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. In these financial statements, significant estimates made by Management of the Bank as of 31 December 2013 and 2012, respectively are presented below.

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

Key sources of estimation uncertainty

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

Useful lives of tangible and intangible assets

As described at Note 3 above, the Bank reviews the estimated useful lives of tangible and intangible assets at the end of each annual reporting period.

Impairment losses on loans and receivables

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

Provisions for employee benefits

As described at Note 3 above, in paragraph with heading employee benefits, provisions for the employee benefits are calculated using the projected credit unit method.

Litigation

The Bank's management assesses the amount of provisions for outflows in respect of litigations. The assessment is based on the estimated probability of future cash outflows, arising from the past legal or constructive obligations (Note 25).

(all amounts are expressed in thousands of KM)

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATIONS (CONTINUED)

Key sources of estimation uncertainty (continued)

Taxation risk

Federation of Bosnia and Herzegovina and Bosnia and Herzegovina currently have several tax laws in effect, as imposed by various governmental agencies. The applicable taxes include: a turnover tax, corporate tax, and payroll (social) taxes, among others. Following their introduction, the regulations governing these taxes were not enforced for substantial periods of time; in contrast to similar legislation in more developed market economies. Moreover, the regulations defining the implementation of these laws are often unclear or non-existent.

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, expiration period of the tax liability is five years.

5. INTEREST INCOME

	2013	2012
Interest on loans and advances to individuals	32,170	38,258
Interest on loans and advances to companies	23,822	31,459
Interest on balances due from other banks	202	299
Interest on financial instruments available for sale	492	288
Total	**56,686**	**70,304**

6. INTEREST AND SIMILAR EXPENSE

	2013	2012
Interest on deposits from individuals	13,231	19,198
Interest on amounts due to other banks	5,745	7,644
Interest on borrowings and subordinated debt	2,999	3,673
Interest on deposits from companies	2,386	4,940
Total	**24,361**	**35,455**

7. FEE AND COMMISSION INCOME

	2013	2012
Fees from other services to individuals	7,444	8,985
Fees from other services to companies	3,011	3,536
Fees from services to banks	2,731	1,948
Fees from issued guarantees	1,098	1,200
Total	**14,284**	**15,669**

(all amounts are expressed in thousands of KM)

8. NET INCOME ON FINANCIAL OPERATIONS

	2013	2012
Foreign exchange gain, net	2,088	3,217
Gains from sale of assets available for sale, net	1,766	-
Gains from fair value adjustments on securities, net	298	96
Income from dividends	-	26
Total	**4,152**	**3,339**

9. OTHER OPERATING INCOME

	2013	2012
Income from re-invoiced expenses to related parties	2,005	2,405
Net income from rent	266	151
Release of provision for employees benefits (Note 25)	227	294
Income from insurance company	115	306
Net income from sale of repossessed collaterals	39	4.003
Other income	1,208	625
Total	**3,860**	**7,784**

10. PERSONNEL EXPENSES

	2013	2012
Gross salaries	15,736	18,203
Other personnel expenses	2,255	947
Total	**17,991**	**19,150**

The number of personnel employed by the Bank as of 31 December 2013 and 2012 were 557 and 579, respectively.

(all amounts are expressed in thousands of KM)

11. GENERAL AND ADMINISTRATIVE EXPENSES

	2013	2012
Provision for court cases (Note 25)	15,542	104
Repairs and maintenance	5,107	6,422
Membership and other fees	3,190	3,676
Rent	2,447	2,621
Consulting and legal fees	2,470	3,090
Other taxes and contributions	2,278	989
Utilities expenses	1,524	1,793
Security expenses	1,366	1,571
Telecommunication	1,139	1,567
Services	1,197	1,462
Advertising, marketing and sponsorship	876	1,247
Consumables	551	858
Loss on disposal of tangible and intangible assets	429	61
Insurance	406	533
Other expenses	1,968	862
Total	**40,490**	**26,856**

12. IMPAIRMENT LOSSES AND PROVISIONS

	2013	2012
Loans and advances to customers (Note 17)	94,264	22,444
Tangible and intangible assets (Note 21)	10,529	-
Other assets (Note 20)	2,632	-
Loans and receivables directly written off	1,342	1,206
Financial commitments and contingencies (Note 26)	736	(645)
Placements with other banks (Note 16)	(27)	(88)
Total	**109,476**	**22,917**

(all amounts are expressed in thousands of KM)

13. INCOME TAX

Tax liability is based on accounting income taking into the account non-deductible expenses and non-taxable income. Tax income rate for the years ended 31 December 2013 and 31 December 2012 was 10%.

Total tax recognised in income statement may be presented as follows:

	2013	2012
Current tax	-	-
Deferred tax	-	-
	-	-

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

	2013	2012
Loss before income tax	**(116,142)**	**(11,084)**
Income tax at the rate of 10%	(11,614)	(1,108)
Effects of non-deductible expenses	1,425	50
Effects of non-taxable income	-	(3)
Effect of carry forwarded tax losses	(19,920)	(18,859)
Unrecognised deferred tax assets relating to losses incurred	**(30,109)**	**(19,920)**
Income tax expense	**-**	**-**

In accordance with the Income tax Law, the taxable losses may be carried forward for the next 5 years against the future profits. Deferred tax assets related to losses incurred in the current year has not been recorded in the accompanying financial statements since it is uncertain that the Bank will have sufficient taxable profit against which it can utilize the benefits from unutilized tax losses carry forward and related deferred tax asset.

Already created deferred tax assets are considered to be recoverable in next five years, as current estimation is that future profits are sufficient to utilized it.

Deferred tax assets arising from the tax losses expire as follows:

- 2014 – KM 1,369 thousand;
- 2015 – KM 13,426 thousand;
- 2016 – KM 4,064 thousand;
- 2017 – KM 1,061 thousand;
- 2018 – KM 10,189 thousand;

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

	Deferred tax assets - fair value of financial assets available-for-sale	Deferred tax assets - losses incurred	Total
Balance as at 31 December 2011	**-**	**2,172**	**2,172**
Charge for the year	-	-	-
Balance as at 31 December 2012	**-**	**2,172**	**2,172**
Charge for the year	116	-	116
Balance as at 31 December 2013	**116**	**2,172**	**2,288**

(all amounts are expressed in thousands of KM)

14. CASH AND DUE FROM BANKS

	31 December 2013	31 December 2012
Cash on clearing account at the Central Bank of Bosnia and Herzegovina	301,554	206,277
Current accounts with other foreign banks	28,740	26,932
Cash on hand	30,769	36,930
Checks	17	76
Total	**361,080**	**270,215**

15. OBLIGATORY RESERVE AT THE CENTRAL BANK OF BOSNIA AND HERZEGOVINA

	31 December 2013	31 December 2012
Minimum obligatory reserve with the Central Bank of Bosnia and Herzegovina	75,447	87,656
Total	**75,447**	**87,656**

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

Interest rates on funds kept up to minimum obligatory reserve amounts to 0.004% - 0.128%, and on excess over minimum obligatory reserves amounts to 0.005% - 0.165%. Cash held at the obligatory reserve account with the Central Bank of Bosnia and Herzegovina is not available for daily operations without specific approval from the Central Bank of Bosnia and Herzegovina and the Banking Agency of the Federation of Bosnia and Herzegovina.

16. PLACEMENTS WITH OTHER BANKS

	31 December 2013	31 December 2012
Short term deposits with banks registered in:		
OECD countries	27,557	53,614
Other countries	-	-
Total gross deposits due from other banks	*27,557*	*53,614*
Less Allowance for impairment losses on placements	(22)	(49)
Total	**27,535**	**53,565**

As of 31 December 2013 the Bank did not have placements in EUR, however in 2012 the interest rates on placements in EUR were 0.05% - 0.25% p.a. As of 31 December 2013 and 2012, respectfully, the interest rates on placements with banks stated in USD were 0.13% - 0.18% p.a. and 0.25% - 0.15% p.a.

(all amounts are expressed in thousands of KM)

16. PLACEMENTS WITH OTHER BANKS (CONTINUED)

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

	2013	2012
Balance as of 1 January	**49**	**137**
Changes in allowance for impairment losses, net (Note 12)	(27)	(88)
Balance as of 31 December	**22**	**49**

17. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2013	31 December 2012
Short-term loans:		
Current portion of long-term loans	267,500	267,039
Corporate	71,461	86,191
Retail	38,382	43,789
Total short-term loans	*377,343*	*397,019*
Long-term loans:		
Corporate	289,748	351,116
Retail	443,857	512,726
Less: current portion of long-term loans	(267,500)	(267,039)
Total long-term loans	*466,105*	*596,803*
Total loans and advances to customers before allowance for impairment losses	843,448	993,822
Less: allowance for impairment losses	(189,261)	(108,439)
Total	**654,187**	**885,383**

Loans to customers are made principally within Federation of Bosnia and Herzegovina.

Movements in the allowance for impairment losses are summarized as follows:

	2013	2012
Balance as at 1 January	**108,439**	**94,204**
Changes in allowance for impairment losses, net (Note 12)	94,264	22,444
Unwinding	(11,754)	(7,919)
Release due to write-off	(1,107)	-
Foreign exchange effects	(581)	(290)
Balance as at 31 December	**189,261**	**108,439**

(all amounts are expressed in thousands of KM)

17. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

An industry analysis of the portfolio of loans and advances to corporate customers before allowance for impairment losses comprises of:

	31 December 2013	31 December 2012
Trade	128,813	166,810
Construction	29,193	34,695
Tourism, hotels and restaurants	16,626	19,598
Manufacturing companies and industry	88,324	96,290
Other	103,563	127,063
Total	**366,519**	**444,456**

Weighted average loan interest rates are summarized as follows:

	31 December 2013	31 December 2012
Corporate	6.84%	7.81%
Retail	8.48%	8.75%

18. FINANCIAL ASSETS AVAILABLE FOR SALE

	31 December 2013	31 December 2012
Treasury bills - Government of Federation BiH	21,648	14,515
Bonds – Government of Federation BiH	9,183	9,382
CROBIH Fond	299	-
S.W.I.F.T SCRL	52	52
Uzajamni fond HYPO BH EQUITY	49	186
Registry of Securities in the FBiH	43	43
Sarajevo Stock Exchange	30	30
Visa Inc.	-	1,723
Financial assets acquired from Glumina Bank	-	-
Total	**31,304**	**25,931**

During 2013, the Bank recognized increase in revaluation reserves related to securities available for sale of KM 21 thousand, net (2012 - KM 547 thousand, net). Total revaluation reserve related to securities available sale amounts to KM -1,043 thousand as of 31 December 2013 (31 December 2012 - KM 536 thousand).

Financial assets acquired from Glumina Bank is valued down to zero via revaluation reserves makes major part of negative revaluation reserves. Amount of revaluation reserves referring to Financial assets acquired from Glumina Bank is KM -1,200 thousand as of 31 December 2013 (31 December 2012 - KM -1.200 thousand) (Note 35).

During 2013, the Bank sold all securities of Visa Inc. with total proceeds in amount of KM 1,766 thousand.

(all amounts are expressed in thousands of KM)

18. FINANCIAL ASSETS AVAILABLE FOR SALE (CONTINUED)

The structure of bonds and treasury bills as per nominal value, as of 31 December 2013 can be presented as follows:

Asset	No.	Discounted price	Nominal price	Due date	Interest rate
Bonds					
Budget expenses					
Government of Federation BiH	5,865	5,831	5,865	27.06.2017.	6.10%
Government of Federation BiH	1,955	1,934	1,955	30.05.2015.	5.25%
Government of Federation BiH	1,250	1,245	1,250	26.09.2014.	4.75%
Accrued interest receivables	-	26	-	-	-
Foreign Savings					
Government of Federation BiH	26,800	27	27	31.08.2014.	2.50%
Government of Federation BiH	47,132	47	47	31.03.2014.	2.50%
Government of Federation BiH	11,063	11	11	3.09.2014.	2.50%
Government of Federation BiH	61,094	61	61	30.09.2014.	2.50%
Accrued interest receivables	-	1	-	-	-
		9,183	**9,216**		
Treasury bills					
Government of Federation BiH	1,000	9,991	10,000	-	-
Government of Federation BiH	977	9,676	9,770	-	-
Government of Federation BiH	200	1,981	2,000	-	-
		21,648	**21,770**		
		30,831	**30,986**		

(all amounts are expressed in thousands of KM)

18. FINANCIAL ASSETS AVAILABLE FOR SALE (CONTINUED)

The structure of bonds and treasury bills as per nominal value, as of 31 December 2012 can be presented as follows:

Asset	No.	Discounted price	Nominal price	Due date	Interest rate
Bonds					
Budget expenses					
Government of Federation BiH	5,865	5,824	5,865	27.06.2017.	6.10%
Government of Federation BiH	1,955	1,923	1,955	30.05.2015.	5.25%
Government of Federation BiH	1,250	1,240	1,250	26.09.2014.	4.75%
Accrued interest receivables	-	55	-	-	-
Foreign Savings					
Government of Federation BiH	51,339	51	51	31.03.2013.	2.50%
Government of Federation BiH	38,629	39	39	31.08.2013.	2.50%
Government of Federation BiH	6,658	7	6	30.09.2013.	2.50%
Government of Federation BiH	106,705	104	107	30.09.2013.	2.50%
Government of Federation BiH	47,132	46	47	31.03.2014.	2.50%
Government of Federation BiH	26,800	25	27	31.08.2014.	2.50%
Government of Federation BiH	11,063	10	11	03.09.2014.	2.50%
Government of Federation BiH	61,094	56	61	30.09.2014.	2.50%
Accrued interest receivables	-	2	-	-	-
		9,382	**9,419**		
Treasury bills					
Government of Federation BiH	976	9,679	9,760	29.05.2013.	-
Government of Federation BiH	488	4,836	4,880	12.06.2013.	-
		14,515	**14,640**		
		23,897	**24,059**		

(all amounts are expressed in thousands of KM)

19. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiary as of 31 December 2013 and 2012 are presented at cost.

	31 December 2013	31 December 2012
Hypo Alpe-Adria Invest d.o.o. Mostar	2,711	2,711
Total	**2,711**	**2,711**

Basic information about the investment in subsidiary:

Name	Industry	Domicile	% held
Hypo Alpe-Adria Invest d.o.o.	Financial services	Bosnia and Herzegovina	100

Financial information about investments in subsidiary is as follows:

	Total Assets	Share capital	Net result for 2013	Retained earnings	Reserves	Total Equity
Hypo Alpe-Adria-Invest d.o.o. Mostar	2,929	1,462	316	956	87	2,821

20. OTHER ASSETS

	31 December 2013	31 December 2012
Repossessed collaterals held for sale	6,310	4,215
Receivables from BORA d.o.o. Banja Luka	2,010	611
Card operations	1,881	2,492
Prepaid income tax	1,783	1,783
Transfer account for Brush clients	816	1,008
Office supplies	450	365
Receivables from Hypo Alpe-Adria Bank a.d. Banja Luka	361	1,069
Advances to suppliers	342	675
Receivables from HETA d.o.o. Sarajevo	230	856
Difference in managed funds (Note 29)	45	29
Fee and commissions receivable	35	82
Receivables for sold repossessed collaterals	16	198
Other assets	1,853	1,763
Total other assets	*16,132*	*15,146*
Less: allowance for impairment losses	(2,632)	-
Total	**13,500**	**15,146**

(all amounts are expressed in thousands of KM)

20. OTHER ASSETS (CONTINUED)

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

	2013	2012
Balance as of 1 January	**-**	**-**
Changes in allowance for impairment losses, net (Note 12)	2,632	-
Balance as of 31 December	**2,632**	**-**

Repossessed collaterals
In 2013, for all repossessed collaterals without Bank's control, the Bank recognized allowance for impairment losses for repossessed collaterals in amount of KM 2,091 thousand.

Following rates are used for calculation of allowance for impairment of repossessed collaterals:

Period *	Impairment percentage
between 6 and12 months	5%
between 12 and 24 months	20%
between 24 and 36 months	50%
> 36 months	100%

* Period indicates to number of months passed from the date when the Bank repossessed assets to the reporting date.

Transfer account for Brush loan receivables
During 2013, the Bank has initiated the Project "Focus" in order to clean up "Transfer account with loan receivables for Brush clients". Due to software deficiencies, there was certain number of wrongly recorded balances of loan receivables occurred during the process of transferring to Brush portfolio.

The impairment calculation was based on detail analysis of each balance recorded on respective account. Accordingly, as of 31 December 2013, the Bank made allowance for impairment losses in amount of 541 thousand KM for identified wrong balances.

Considering the fact that the Project "Focus" is still in progress, remained amount of KM 275 thousand will be corrected in the following period.

(all amounts are expressed in thousands of KM)

21. TANGIBLE AND INTANGIBLE ASSETS

	Land and buildings	Office equipment and vehicles	Construction in progress	Leasehold improvements	Software and other intangibles	Total
Cost value						
31 December 2011	**49,438**	**21,800**	**1,609**	**1,810**	**18,503**	**93,160**
Additions	-	-	2,510	-	-	2,510
Transfers from/to	86	1,554	(2,121)	6	475	-
Disposals	(177)	(2,773)	(3)	(636)	(12)	(3,601)
31 December 2012	**49,347**	**20,581**	**1,995**	**1,180**	**18,966**	**92,069**
Additions	3	1	2,932	-	-	2,936
Transfers from/to	609	1,854	(3,815)	970	382	-
Disposals	-	(4,835)	(553)	(759)	(4,452)	(10,599)
31 December 2013	**49,959**	**17,601**	**559**	**1,391**	**14,896**	**84,406**
Accumulated depreciation						
31 December 2011	**4,019**	**13,720**	**-**	**1,255**	**5,868**	**24,862**
Charge for the year	1,037	2,720	-	217	2,151	6,125
Disposals	(22)	(2,650)	-	(581)	(12)	(3,265)
31 December 2012	**5,034**	**13,790**	**-**	**891**	**8,007**	**27,722**
Charge for the year	1,038	2,558	-	196	2,077	5,869
Disposals	-	(4,646)	-	(687)	(4,454)	(9,787)
Impairment loss (Note 12)	1,391	-	-	-	9,138	10,529
31 December 2013	**7,463**	**11,702**	**-**	**400**	**14,768**	**34,333**
Net book value: 31 December 2013	**42,496**	**5,899**	**559**	**991**	**128**	**50,073**
31 December 2012	**44,313**	**6,791**	**1,995**	**289**	**10,959**	**64,347**

In 2013, Bank recognized impairment losses of tangible and intangible assets in amount of KM 10,529 thousand. Out of this amount, KM 9,071 thousand relates to impairment of customised software. The impaired amount has been identified using concept of value in use, for measuring the recoverable amount.

For non-customized software, the Bank recognized impairment losses in amount of KM 67 thousand, using market value of similar software.

For tangible assets, building the Bank reigned impairment losses in amount of KM 1,391 thousand using market value approach.

(all amounts are expressed in thousands of KM)

22. DUE TO OTHER BANKS

	31 December 2013	31 December 2012
Short-term deposits:		
In KM	96,187	570
In foreign currencies	1,379	33,650
Subtotal	*97,566*	*34,220*
Long-term deposits:		
In KM	-	-
In foreign currencies	165,046	170,372
Subtotal	*165,046*	*170,372*
Total deposits from banks	*262,612*	*204,592*
Long term loan from foreign bank	82,261	84,271
Total	**344,873**	**288,863**

Long term deposits as of 31 December 2013 and 2012, respectively, may be presented as follows:

	31 December 2013	31 December 2012
Hypo Alpe-Adria Bank International AG, Klagenfurt (term deposits for a period over 5 years)	109,235	48,929
Hypo Alpe-Adria Bank International AG, Klagenfurt (term deposits for a period shorter than 3 years)	50,049	-
Hypo Alpe-Adria Bank International AG, Klagenfurt (term deposits for a period from 3 to 5 years)	5,762	94,337
Hypo Alpe-Adria Bank International AG, Klagenfurt (term deposits for a period from up to 3 years)	-	23,606
Hercegovačka banka d.d. Mostar (in provisional administration)	-	3,500
Total	**165,046**	**170,372**

Interest rates on long-term deposits from other banks, ranged from EURIBOR+0.90% to EURIBOR+2.56% in 2013 and from EURIBOR+0.9% to EURIBOR+2.25% during 2012.

Long term deposits relate to deposits from Parent Bank, Hypo Alpe-Adria Bank International AG, Klagenfurt, with the maturity for the period from one to three years, from three to five years and over five years.

In accordance with the Letter of Intent issued by the Parent Bank on 4 February 2014, the Parent Bank agreed not to withdraw the deposits before the date of their maturity. Furthermore, this Letter of Intent expires either by returning it to Parent Bank or at least after a period of 12 months from the date of issuance of Letter. The Letter of Intent also expires if there is a change in shareholder structure of the Bank, regardless in which measures, before the expiry date.

(all amounts are expressed in thousands of KM)

23. DUE TO CUSTOMERS

	31 December 2013	31 December 2012
Demand deposits from		
Individuals:		
In KM	93,905	93,113
In foreign currencies	108,221	101,251
Subtotal	*202,126*	*194,364*
Companies:		
In KM	73,235	66,180
In foreign currencies	9,535	10,019
Subtotal	*82,770*	*76,199*
Total demand deposits	**284,896**	**270,563**
Term deposits from		
Individuals:		
In KM	51,376	77,673
In foreign currencies	219,295	326,646
Subtotal	*270,671*	*404,319*
Companies:		
In KM	15,615	28,621
In foreign currencies	15,390	54,496
Subtotal	*31,005*	*83,117*
Total term deposits	**301,676**	**487,436**
Total	**586,572**	**757,999**

Interest rates for long-term deposits were in the range from 0.02% to 3.8% per annum and from 0.20% to 6.75% per annum as of 31 December 2013 and 2012, respectively.

24. SUBORDINATED DEBT

	31 December 2013	31 December 2012
Hypo Alpe-Adria Bank International AG, Klagenfurt	-	65,000
Total	**-**	**65,000**

The subordinated debt from Hypo Alpe-Adria Bank International AG Klagenfurt as of 31 December 2012 was comprised of four long term deposits in total value of KM 65,000 thousand.

As per approval from Federal Banking Agency in December 2013, subordinated debt in total amount of KM 65,000 thousand has been used as additional capital for regulatory purposes.

(all amounts are expressed in thousands of KM)

25. OTHER LIABILITIES

	31 December 2013	31 December 2012
Provision for legal cases *	15,676	134
Payments in transit	7,167	10,644
Accrued expenses	3,782	3,154
Liabilities to employees for salaries	1,317	1,876
Accrued bonuses	975	975
Liabilities to vendors	759	360
Provision for employee benefits *	724	951
Other tax liabilities	416	542
Restricted funds	346	596
Liabilities for card operations	191	196
Exercised guarantees	150	169
Provision for restructuring *	-	106
Other liabilities	248	654
Total	**31,751**	**20,357**

Movement of provisions can be summarized as follows:

	Restructuring provision	Employee benefits	Legal cases	Total
Balance as at 31 December 2011	**604**	**1,293**	**30**	**1,927**
Increase (Notes 10 and 11)	-	8	104	112
Release (Note 9)	-	(294)	-	(294)
Release due to payment	(498)	(56)	-	(554)
Balance as at 31 December 2012	**106**	**951**	**134**	**1,191**
Increase (Note 11)	-	-	15,542	15,542
Release (Note 9)	-	(227)	-	(227)
Release due to payment	(106)	-	-	(106)
Balance as at 31 December 2013 *	**-**	**724**	**15,676**	**16,400**

Structure of the provisions for legal cases is as follows

	31 December 2013	31 December 2012
Provision for legal proceedings	392	134
Provisions for CHF loans	9,955	-
Provisions for tax legal cases	5,329	-
Total	**15,676**	**134**

(all amounts are expressed in thousands of KM)

25. OTHER LIABILITIES (CONTINUED)

Provisions for legal proceedings and CHF loans

As of December 31, 2013, the legal proceedings filed against the Bank amounted to BAM 75.619 thousand, exclusive of any penalty interest that might be assessed, given that the Bank's Management was unable to estimate with any certainty the possible effects of penalty interest as of the date of issuance of these financial statements. The Bank's Management estimates that the final outcome of the lawsuits filed will be favourable for the Bank, and that no material losses will result from the resolution of the aforesaid litigations. Accordingly, as of December 31, 2013, the Bank created provision against potential losses thereof in the amount of BAM 392 thousand (December 31, 2012: BAM 134 thousand). The aforestated amount of provisions does not include provisions stipulated by special Decisions – BAM 9.955 thousand for contingent legal suits for CHF loans.

In Serbia, Croatia, Bosnia and Montenegro, bank customers and bodies representing bank customers have lodged claims against Hypo Alpe Adria group companies, or have threatened to do so. They allege that provisions in some lending agreements relating to interest are not in compliance with the law and/or that interest rate adjustments did not comply with contractual provisions. Some cases also allege that clauses contained in the agreements regarding linking with the CHF benchmark index rate ought to be changed, and that these should instead be linked to the EUR benchmark interest rate.

A number of proceedings have also been initiated against subsidiary banks in Bosnia and Herzegovina in relation to similar cases of CHF loans and interest rate adjustments. In Bosnia and Herzegovina 389 court cases against Hypo Alpe-Adria-Bank d.d. are currently underway in Mostar regarding claims relating to intransparent foreign exchange clauses and/or unilateral interest rate adjustment clauses. According to current information, an additional 1,500 such claims are expected.

The claims relate to loans granted between 2006 and 2008. At the current stage of procedures, 17 decisions in the first instance have been issued, one in favour of the bank and 15 in favour of the customers (one decision was partly in favour of the bank). The bank has appealed against all 16 decisions and the outcome remains to be seen. In order t prevent potential convictions, the bank makes a concerted effort to reach out of court settlements.

The Bank constantly monitors legal risks, and evaluates the expected legal proceedings expenses, and creates adequate provisions.

Provisions for tax legal cases

In Hypo Alpe-Adria-Bank d.d. Mostar audit was conducted by Direct Taxation Authorities BIH and it was related for period 1.1.2008.- 31.12.2012.(date of beginning of control was 5.3.2013. and it has finished 7.6.2013.)

Based on audit performed, it is determined that bank has obligations for wages tax and social contributions, withholding tax , income tax and to all taxes related penalty interest in total amount 6.200 thousand KM for above stated period.

In the year 2013 the Bank paid 871 thousand KM, and the rest of it is subject to appeal and fully provisioned (5.329 thousand KM).

Based on the aforesaid facts, not one of the legal suits initiated against the Bank is significant enough to compromise the Bank's operations.

26. FINANCIAL COMMITMENTS AND CONTINGENCIES

	31 December 2013	31 December 2012
Unused loan facilities	67,539	80,077
Payment guarantees	13,519	28,624
Performance guarantees	11,394	14,230
Letters of credit	1,238	1,789
Total	**93,690**	**124,720**
Provision for financial commitments and contingencies	3,579	2,845

(all amounts are expressed in thousands of KM)

26. FINANCIAL COMMITMENTS AND CONTINGENCIES (CONTINUED)

Movements in provision for financial commitments and contingencies may be summarized as follows:

	2013	2012
Balance as of 1 January	**2,845**	**3,503**
Increase / (release) of provisions (Note 12)	736	(645)
Foreign exchange effects	(2)	(13)
Balance as of 31 December	**3,579**	**2,845**

27. RELATED-PARTY TRANSACTIONS

Related parties, as defined by IAS 24, are those counter parties that represent:

- enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);
- associates – enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;
- key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and
- enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

(all amounts are expressed in thousands of KM)

27. RELATED-PARTY TRANSACTIONS (CONTINUED)

	31 December 2013	31 December 2012
Receivables		
Placements - HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt	19,004	18,974
Other – Hypo Alpe-Adria-Leasing d.o.o. Banja Luka	3,617	3,330
Other - BORA d.o.o. Banja Luka	2,010	-
Placements - HYPO ALPE-ADRIA-BANK d.d., Zagreb	706	1,343
Other - Hypo Alpe-Adria-Bank A.D. Banja Luka	354	1,069
Placements - HYPO ALPE-ADRIA-BANK d.d. Ljubljana	261	91
Other - HETA d.o.o. Sarajevo	232	856
Placements - HYPO ALPE-ADRIA-BANK AD BEOGRAD	159	148
Placements - HYPO ALPE-ADRIA-BANK S.P.A., Udine	94	356
Other - HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt	21	22
Other - Hypo Alpe-Adria-Leasing d.o.o. Banja Luka	6	5
Other - HYPO ALPE-ADRIA-BANK A.D. PODGORICA	5	4
Placements - HYPO ALPE-ADRIA-BANK AG, Klagenfurt	-	132
Other - HYPO ALPE-ADRIA-BANK d.d. Zagreb	-	58
Other - HYPO ALPE-ADRIA-BANK AG, Klagenfurt	-	5
Other - HYPO ALPE-ADRIA-BANK AD BEOGRAD	-	2
Total	**26,469**	**26,395**
Payables		
Deposits - HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt	262,343	200,325
Deposits - HETA d.o.o. Sarajevo	7,393	3,210
Other - HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt	708	556
Other - Hypo Alpe-Adria-Bank A.D. Banja Luka	345	898
Deposits - HYPO ALPE-ADRIA-BANK d.d., Zagreb	225	465
Deposits - Hypo Zastupnik d.o.o. (former: GLOBUS konsalting d.o.o.)	190	93
Other – BORA d.o.o. Banja Luka	41	167
Deposits - HYPO ALPE-ADRIA-BANK AD BEOGRAD	23	137
Deposits - Hypo Alpe-Adria-Bank A.D. Banja Luka	23	-
Other - Hypo Alpe-Adria-Leasing d.o.o. Banja Luka	22	51
Deposits - Hypo Alpe-Adria-Bank A.D. Banja Luka	14	1,454
Other - HYPO ALPE-ADRIA-BANK d.d., Zagreb	6	171
Other - HYPO ALPE-ADRIA-BANK AD BEOGRAD	2	7
Subordinated debt - HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt	-	65,000
Deposits - HYPO ALPE-ADRIA-BANK AG, Klagenfurt	-	93
Deposits - HYPO ALPE-ADRIA-BANK A.D. PODGORICA	-	6
Total	**271,335**	**272,633**

(all amounts are expressed in thousands of KM)

27. RELATED-PARTY TRANSACTIONS (CONTINUED)

	2013	2012
Income		
Other income - BORA d.o.o. Banja Luka	1,496	-
Fee and Commission income – BORA d.o.o. Banja Luka	1,092	1,004
Other income - HETA d.o.o. Sarajevo	611	4,622
Other income - Hypo Alpe-Adria-Bank A.D. Banja Luka	425	690
Interest income - Hypo Alpe-Adria-Leasing d.o.o. Banja Luka	173	8
Other income - HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt	78	-
Fee and Commission income - Hypo Alpe-Adria-Bank A.D. Banja Luka	76	126
Other income - Hypo Alpe-Adria-Leasing d.o.o. Banja Luka	47	44
Interest income - HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt	22	17
Interest income - HYPO ALPE-ADRIA-BANK d.d., Zagreb	14	7
Fee and Commission income - HYPO ALPE-ADRIA-BANK AG, Klagenfurt	7	28
Fee and Commission income - HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt	-	59
Fee and Commission income - HETA d.o.o. Sarajevo	-	19
Fee and Commission income - HYPO ALPE-ADRIA-BANK S.P.A., Udine	-	4
Interest income - HYPO ALPE-ADRIA-BANK S.P.A., Udine	-	3
Interest income - HYPO ALPE-ADRIA-BANK d.d., Zagreb	-	3
Total	**4,041**	**6,634**
Expenses		
Interest expense - HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt	7,996	9,577
Administrative expenses - ZAJEDNICKI INFORMACIONI SISTEM d.o.o. BEOGRAD	4,019	3,888
Administrative expenses - HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt	1,329	1,763
Fee and commission expense - HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt	1,024	2,528
Administrative expense -HYPO ALPE-ADRIA-BANK d.d., Zagreb	489	808
Administrative expenses-Hypo Alpe-Adria-Bank A.D. Banja Luka	321	250
Fee and commission expense - Hypo Alpe-Adria-Bank A.D. Banja Luka	163	191
Interest expense - HETA d.o.o. Sarajevo	82	65
Administrative expenses - HETA d.o.o. Sarajevo	76	182
Fee and commission expense - HYPO ALPE-ADRIA-NEKRETNINE d.o.o., Zagreb	28	15
Administrative expense - HYPO ALPE-ADRIA-NEKRETNINE d.o.o., Zagreb	23	31
Other expenses - HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt	-	5
Interest expense - Hypo Alpe-Adria-Leasing d.o.o. Banja Luka	-	4
Total	**15,550**	**19,307**

All of the transactions stated above have been made under arm's-length commercial banking conditions.

(all amounts are expressed in thousands of KM)

27. RELATED-PARTY TRANSACTIONS (CONTINUED)

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

	2013	2012
Compensations for the Management Board	540	285
Taxes and contributions on compensations	427	225
Total	**967**	**510**

28. FAIR VALUE MEASUREMENT

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

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

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

			Fair values
	Level 1	Level 2	Level 3
31 December 2013			
Financial assets available for sale (Note 18)			
Listed equity securities in Bosnia and Herzegovina	-	421	-
Listed equity securities in United States	52	-	-
Unlisted debt securities in Bosnia and Herzegovina:			
Treasury bills of the Government of the Federation of B&H	-	21,648	-
Bonds of the Government of the Federation of B&H	-	9,183	-
31 December 2012			
Financial assets available for sale (Note 18)			
Listed equity securities in Bosnia and Herzegovina	-	259	-
Listed equity securities in United States	1,775	-	-
Unlisted debt securities in Bosnia and Herzegovina:			
Treasury bills of the Government of the Federation of B&H	-	14,515	-
Bonds of the Government of the Federation of B&H	-	9,382	-

(all amounts are expressed in thousands of KM)

28. FAIR VALUE MEASUREMENT (CONTINUED)

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

Valuation techniques and key inputs

Financial assets available-for-sale

For the securities presented under Level 1 (listed equity securities in United States) valuation technique is based on quoted bid prices in an active market.

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

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

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

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

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

	31 December 2013		31 December 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and receivables:				
- Loans and receivables from customers	654,187	674,383	885,383	910,921
- Placements with other banks	27,535	27,565	53,565	53,629
Financial liabilities				
Financial liabilities held at amortised cost:				
- Deposits and loans from Banks	344,873	327,366	288,863	269,679
- Current accounts and deposits from customers	586,572	598,326	757,999	744,067

(all amounts are expressed in thousands of KM)

28. FAIR VALUE MEASUREMENT (CONTINUED)

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

			Fair value hierarchy as at 31 December 2013	
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and receivables:				
- Loans and receivables from customers	-	-	674,383	674,383
- Placements with other banks	-	27,565	-	27,565
	-	**27,565**	**674,383**	**701,948**
Financial liabilities				
Financial liabilities held at amortised cost:				
- Deposits and loans from Banks	-	327,366	-	327,366
- Current accounts and deposits from customers	-	598,326	-	598,326
	-	**925,692**	**-**	**925,692**

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

Presumptions used for estimate and measurement of fair value of particular financial instruments for 2013 are based on requirements of IFRS 13.

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

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

28.3 Reconciliation of Level 3 fair value measurements

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

(all amounts are expressed in thousands of KM)

29. MANAGED FUNDS

The Bank manages assets on behalf of third parties. These assets are recorded separately from the Bank's assets. For its services, the Bank charges a fee amounting to 1% of the total amount contributed.

	31 December 2013	31 December 2012
Assets		
State institutions	689	706
Total	**689**	**706**
Liabilities		
Legal entities	644	677
Total	**644**	**677**
Differences (Note 20)	**45**	**29**

30. MARKET RISK

Market risks consist of potential losses due to a change in market prices. The Bank classifies market price risks according to the risk factors in changes to interest rates, credit spread, currency, volatility and share price risks, as well as risks from alternative investments.

Market price risks may result from securities (and products similar to securities), money and foreign currency products, derivatives, currency exchange and results hedging, assets similar to equity or from management of assets and liabilities.

Besides market risks, market liquidity risks may also be incurred if, in the event of low market demand, the Bank is unable to liquidate trading positions during liquidity shortfalls (or due to risk-based offsetting requirements) in the short term. For existing positions, these are taken into account as part of the risk limitations for market risks.

General Requirements

The Bank develops its market risk strategy on the basis of strategic discussions between the treasury units in charge and Risk controlling. Decisions on combined business and risk strategies are only made in the Asset-Liability Committee (ALCO).

As part of the daily reporting procedure, the Management board receives value-at-risk and performance figures for trading transactions on a daily basis and figures on banking book investments and market risk steering on a weekly basis.

There is also a daily report to the Management board in which the key risk and performance figures of the subsidiaries are communicated. In these, the value-at-risk at the subsidiary level is compared to the defined limits. Limit breaches initiate defined escalation processes up to Management board level.

The subsidiaries of Hypo Alpe-Adria Group („HGAA") calculate risk as per HGAA specifications for the respective portfolios. The results are presented to the Management board as part of on-going reporting for HGAA. This is also applicable for the Bank, as a subsidiary of HGAA.

Risk Measurement

The Bank calculates its market risk as part of daily monitoring with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99% in full accordance to group standards. The main instrument used in this process is the Monte Carlo simulation with an exponentially weighted history of 250 days.

For the purpose of determining risk capital requirements for the risk bearing capacity calculation, values are scaled to the uniform confidence level of 99.895%, assuming liquidation over a time period of 126 days.

The models calculate potential losses taking into account historic market fluctuations (volatilities) and market context (correlations).

30. MARKET RISK (CONTINUED)

Risk Measurement (continued)

The reliability of market risk measurement methods is regularly examined with regard to the quality of individual risk methods. As part of back testing, the risk forecast is compared with the result (profit or loss). In accordance with the Basel 'traffic light' approach, the forecast quality of the risk model is appropriate.

While the VaR that is determined for monitoring requirements is used to forecast potential losses under normal market conditions, future-oriented analyses using extreme assumptions are also carried out. Market positions are subjected to exceptional market price changes, crisis situations and worst case scenarios as part of so-called "stress tests", and analysed for hazardous risk potentials using the simulated results.

The stress scenarios are monitored for appropriateness and adjusted if required.

The Bank does not currently use its own internal risk models for regulatory purposes. Instead, it uses the standard Group method.

Risk Mitigation

In accordance with the new risk strategy from the Group, which is effective from August 2010, a limit of 10% of risk capital has been set for market risk. The amount of risk capital set represents the maximum loss that may be incurred for absorbing market risk. Market risk capital is distributed over individual market risk factors (interest rate, currency, shares, credit spread, volatility and alternative investments) by setting risk factor limits. Risk factor limits are also further defined and differentiated through defined partial portfolios.

In addition a limit system also provides support through defined warning levels, which show negative developments early on.

Risk Control and Monitoring

All market risks are centrally monitored by Risk Control, which is independent of all trading activities. In addition to regulatory requirements, this unit also ensures risk transparency and regular reporting to the Management Board member responsible for this area. The Management Board also receives a separate monthly report on the actual market risk situation as well as on back testing and stress test results with a commentary on potentially significant developments.

The control of interest rate risk is carried out on an institutionalized basis in compliance with the regulatory requirements related to interest rate risk statistics. The Asset Liability Committee, which consists of the Management Board as well as key staff in Treasury, Risk Control and Financial Control, meets on a regular basis to analyse and decide on measures related to balance sheet structure and liquidity control.

Market Risk Overview

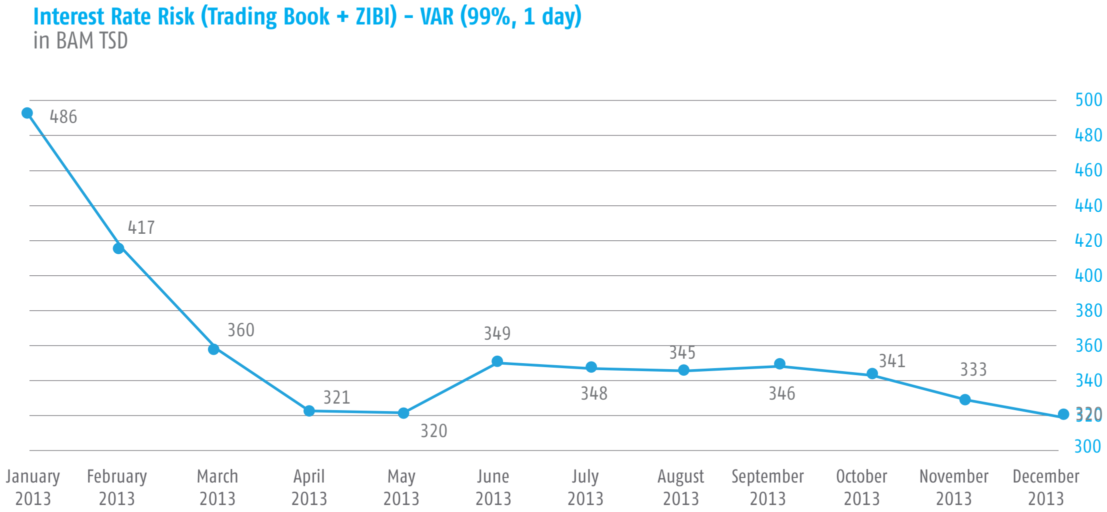
The table shows the progression of interest rate risk (including the interest rate risk of the trading book) for the Bank in 2013.

The graph shows the interest rate change risk for the Bank at overall Bank level (trading book and banking book).

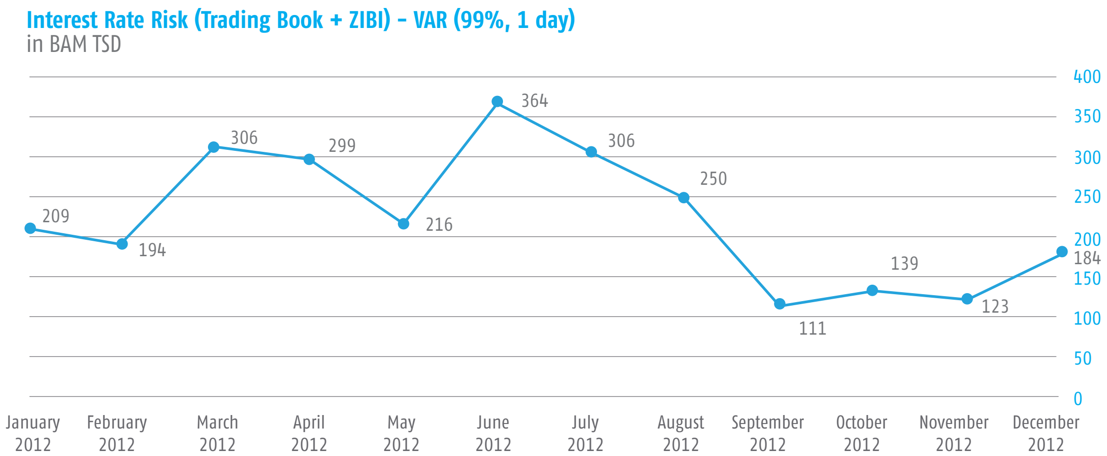
30. MARKET RISK (CONTINUED)

Market Risk Overview (continued)

Interest Rate Risk (Trading Book + Bank Book) – 2013



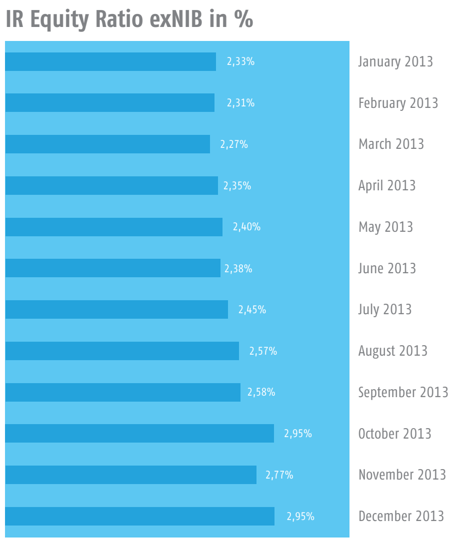
Interest Rate Risk (Trading Book + Bank Book) – 2012



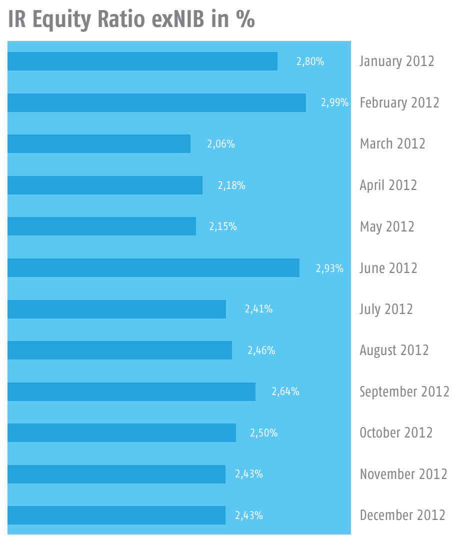
The methodology of the interest risk calculation is oriented to the specifications of the Austrian National Bank (Oesterreichische Nationalbank - OeNB) regarding the calculation of interest risk statistics.

30. MARKET RISK (CONTINUED)

Interest Risk to Equity Ratio in %



2013

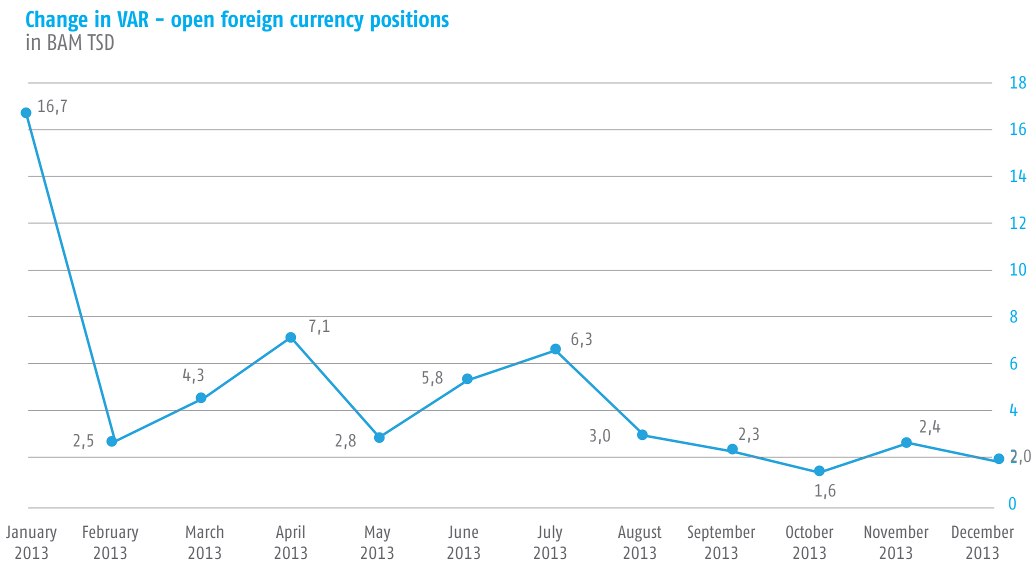


2012

The data basis for determining the value-at-risk for open foreign currency positions at the Bank level is based on the figures of the Open FX report on daily basis.

The value-at-risk for this foreign currency risk was approximately KM 3.4 thousand (EUR 1.7 thousand) as of 31 December 2013, at a confidence interval of 99%.

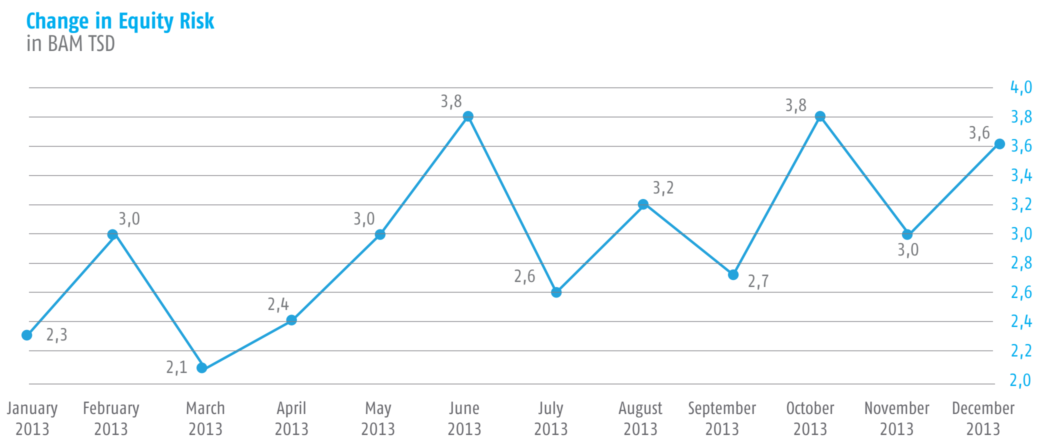
Change in VAR – open foreign currency positions – 2013



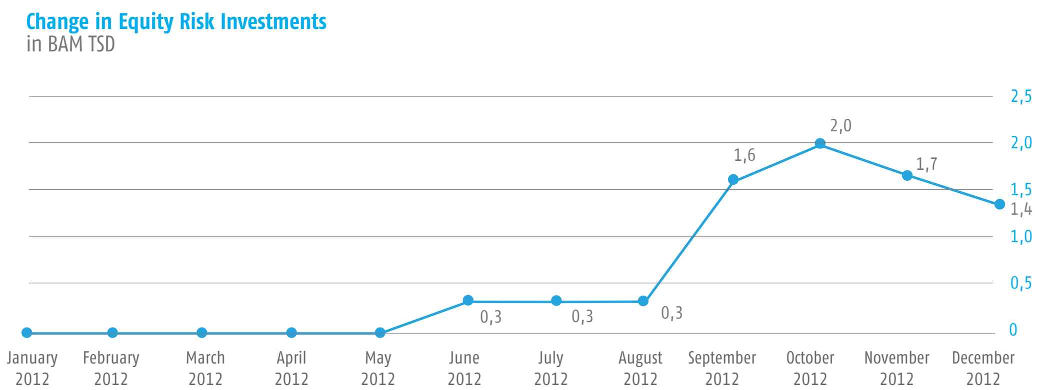
30. MARKET RISK (CONTINUED)

Change in VAR – open foreign currency positions – 2012

Change in VAR – Equity risk – 2013



Change in VAR – Equity risk – 2012



(all amounts are expressed in thousands of KM)

31. FOREIGN CURRENCY BALANCE SHEET AND FOREIGN CURRENCY RISK

The Bank undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

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

		Assets		Liabilities
	2013.	2012.	2013.	2012.
EUR	456,168	587,443	463,221	684,178
USD	3,496	32,538	30,191	33,089
CHF	184,803	238,072	106,828	126,537
Other currencies	2,561	4,699	3,166	3,844

Loans and deposits placed denominated in BAM with contracted currency clause are presented within appropriate foreign currency items.

The structure of balance sheet as per foreign currencies as of 31 December 2013 and 31 December 2012 can be presented as follows:

	KM	EUR	USD	CHF	Other currencies	Total
ASSETS						
Cash and due from banks	321,661	27,417	2,920	6,521	2,561	361,080
Obligatory reserve	75,447	-	-	-	-	75,447
Placements with other banks	-	26,959	576	-	-	27,535
Loans and advances to customers	74,165	401,740	-	178,282	-	654,187
Assets available for sale	31,252	52	-	-	-	31,304
Total financial Assets (1)	**502,525**	**456,168**	**3,496**	**184,803**	**2,561**	**1,149,553**
LIABILITIES						
Due to other banks	96,189	147,194	-	101,490	-	344,873
Due to customers	234,116	314,031	30,181	5,080	3,164	586,572
Subordinated debt	-	-	-	-	-	0
Other financial liabilities	29,485	1,996	10	258	2	31,751
Total financial Liabilities (2)	**359,790**	**463,221**	**30,191**	**106,828**	**3,166**	**963,196**
Balance gap as at 31 December 2013 (1) - (2)	**142,735**	**-7,053**	**-26,695**	**77,975**	**-605**	**186,357**
Total assets as of 31 December 2012 (3)	**460,193**	**587,443**	**32,538**	**238,072**	**4,699**	**1,322,945**
Total liabilities as of 31 December 2012 (4)	**284,798**	**684,178**	**33,089**	**126,537**	**3,844**	**1,132,446**
Balance gap as at 31 December 2012 (3) – (4)	**175,395**	**-96,735**	**-551**	**111,535**	**855**	**190,499**

32. LIQUIDITY RISK

The Bank defines liquidity risk as the risk of not being able to meet due payment obligations on time or, in full amount; or – in the event of a liquidity crisis – only being able to procure refinancing at increased market rates, or only being able to sell assets at a discount to market prices.

General Requirements
The strategic principles of handling liquidity risks at the Bank are defined in the risk strategy. The overriding objective of liquidity risk management and controlling is to ensure that the Bank maintains its capacity to make payments and undertake refinancing activities at any time. The content-related and organizational conditions for the management and controlling of liquidity risks are governed by a liquidity manual which applies across the entire HGAA.

In the Bank, liquidity steering and management are the responsibility of the Treasury function. The Treasury unit is responsible for operational liquidity steering and liquidity off-sets. Liquidity risk controlling is the responsibility of the Risk Controlling of the Bank. Risk measurement, limitation as well as timely and consistent reporting are carried out.

The Bank has adopted emergency liquidity planning which has been set out in written form. It sets out the processes and control or hedging instruments which are required to avert imminent or tackle acute crises. In the event of a liquidity crisis, the priorities of the Bank are to rigorously maintain the capacity to pay and to prevent damage to the Bank's reputation.

Risk Measurement
The main methodological tool for measuring, analysing, monitoring and reporting on liquidity risk within the Bank is the liquidity overview. It is used to illustrate liquidity gaps resulting from deterministic and modelled future payment flows and the realizable liquidity coverage potential in firmly defined time frames.

The liquidity potential quantifies the capacity of the Bank – in amounts and dates – to procure liquid funds at the earliest opportunity and at cost-effective terms and conditions. It highlights possibilities regarding the coverage of liquidity gaps and hence all liquidity risks related to payment flows.

The most important components of liquidity potential are as follows:

- free access to Central bank and interbank funds;
- other available and eligible securities;
- issue potential in cover register;
- senior bond issues;
- committed lines of parent company, as well as;
- securitization potential.

In addition to the normal scenario, other scenario analyses under stress conditions, such as name crises (rating deterioration, reputation risks) as well as market crises (restrictive funding options on capital markets, increased cash flow outflow as well as transfer limits), supplement the risk measurement spectrum.

On the basis of the liquidity overviews, key indicators are determined for the different scenarios, which allow a compact assessment of the liquidity situation. Liquidity ratios (showing tightest liquidity position) and "time-to-wall" key figures (showing maximum liquidity time horizon) for up to one year are calculated to evaluate the liquidity situation – although particular importance is attached to the utilization over the first 4 weeks.

For the purpose of limiting structural liquidity, cash value losses in the event of an increase in the funding spread due to a rating deterioration are compared in the risk-bearing capacity calculation to the economic equity.

32. LIQUIDITY RISK (CONTINUED)

Risk Control

A bundle of different liquidity reserves ensures that the Bank maintains its ability to pay even during crisis situations. They are subjected to different stresses in order to maintain an overview of available liquidity resources through the respective units even during crisis situations. Moreover, the Bank holds its own liquidity buffer for stress situations, composed of securities eligible in accordance with requirements of the European Central Bank (ECB) and/or securities that can be quickly liquidated as well as guaranteed interbank credit facilities.

A cash flow statement composed of deterministic, stochastic and forecast data forms the basis of this process. Short term forecast data is elicited directly from client transactions by the operating units for the purposes of short-term control, while planned budget information is used for medium-term control.

Any occurring gaps are compared to the liquidity potential – a well-diversified bundle of liquidity reserves available for liquidity management. The liquidity reserves are subjected to a regular review and stresses, depending on the market situation (as described above).

Except the structure, controlling department focuses on meeting the minimum reserve as well as 1st and 2nd grade liquidity reserves.

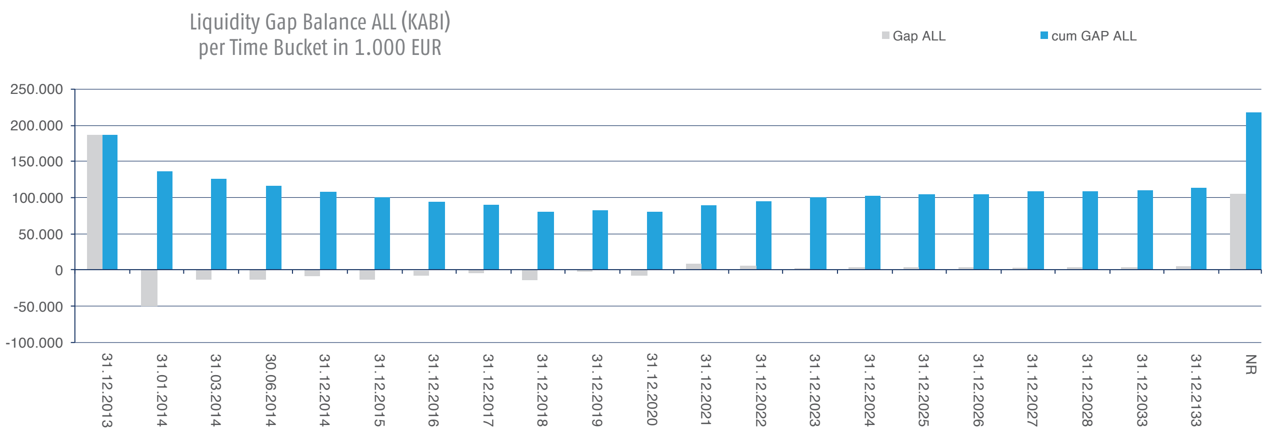
Risk Monitoring

The monitoring of liquidity risk is carried out, on the one hand, on the basis of the liquidity ratio and "time-to-wall" key indicators (maximum liquidity time horizon) under normal and stress conditions, and on the other hand, through the integration of the structural liquidity risk into overall bank control (risk-bearing capacity).

Limits for short-term liquidity as well as for the limitation of long-term structural liquidity have been set, both at Group level and for the individual subsidiaries, and are monitored constantly. To ensure that existing liquidity gaps can be closed at any time through the mobilization of the liquidity potential, threshold values are being defined for all scenarios and if these are exceeded, measures must be introduced to reduce the identified liquidity risks.

The liquidity overviews as well as other relevant key indicators form a part of regular risk reports to the Management board and the controlling units responsible for liquidity risk.

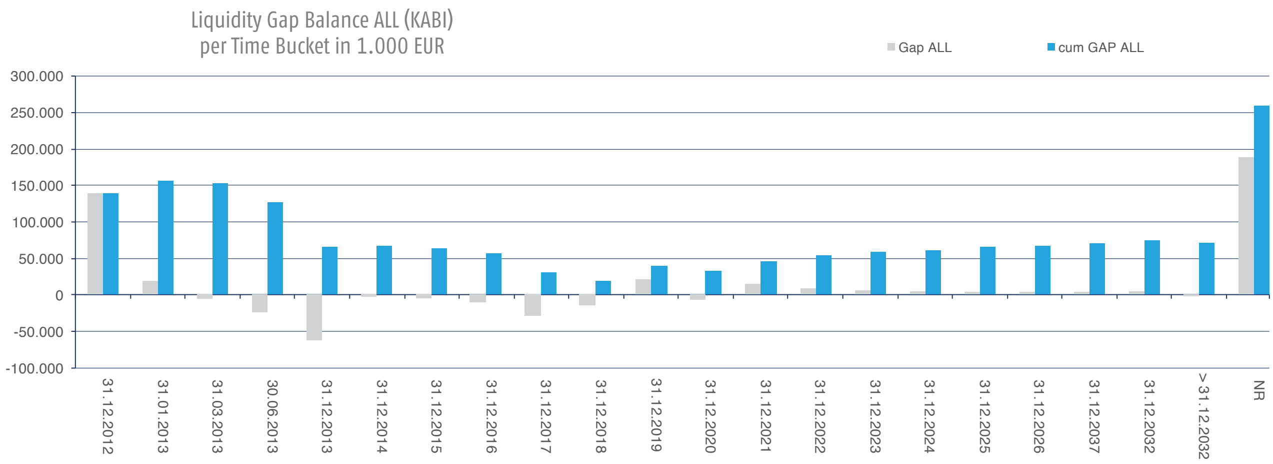
Cumulative and marginal liquidity gap overview per time bucket – 2013



(all amounts are expressed in thousands of KM)

32. LIQUIDITY RISK (CONTINUED)

Cumulative and marginal liquidity gap overview per time bucket – 2012



The Bank has access to sources of financing for liquidity issue in total amount of KM 53,867 thousand at the balance sheet date (2012: KM 203,406 thousand). The Bank expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets. The Bank expects to maintain its debt to capital ratio.

Solvency indicators were as follows:

	31 December 2013	31 December 2012
Debt (i)	931,445	1,046,862
Equity (ii)	251,350	337,062
%	**3.71**	**3.11**

Debt (i) is defined as due to banks and due to customers presented in detail in notes 22 and 23.

Capital (ii) includes total capital, Bank's reserves and subordinated debt.

The adequacy of capital and its use is monitored by the Board of Directors using techniques based on the Decisions of the Banking Agency of the Federation of Bosnia and Herzegovina (''the Regulator'').

Information is supplied to the Regulator on a quarterly basis. The Regulator places the following demands on all banks:

- Minimum ownership capital of KM 15 million.
- Maintaining capital adequacy (''Basel Indicator'') at the legally required minimum of 12% for all banks. There are special requirements to Hypo Alpe-Adria-Bank d.d. Mostar to maintain capital adequacy at minimum of 14.50%. As of 31 December 2013 the adequacy of the Bank's capital amounts to 17.9% (2012: 21%).

(all amounts are expressed in thousands of KM)

33. CREDIT RISK

The Bank takes on exposure to credit risk which is the risk upon credit approval and when counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. The lending limits are annually reviewed and approved by Assets and Liabilities Committee.

Commitments to extend credit, undrawn loan commitments, unutilized overdrafts and approved overdraft loans. The primary purpose of commitments to extend credit is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorizations to extend credits in the form of loans, guarantees or stand-by letters of credit. Commitments to extend credit issued by the Bank represent issued loan commitments or guarantees, un drawn portions of and approved overdrafts loans. Commitments to extend credit or guarantees issued by the Bank which are contingent upon customers maintaining specific credit standards (including the condition that a customer's solvency does not deteriorate) are revocable commitments. Irrevocable commitments represent undrawn portions of authorized loans and approved overdraft facilities because they result from contractual terms and conditions in the credit agreements.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Bank's maximum exposure to credit risk without taking account of the value of any collateral obtained.

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

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Bank's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Financial Assets

31 December 2013	Total gross carrying amount	Unimpaired assets	Individually impaired assets	Allowance for impairment losses (portfolio)	Allowance for impairment losses (individually)	Total net carrying amount
Cash and due from other banks including obligatory reserves with CBBiH	436,527	436,527	-	-	-	436,527
Placements with other banks	27,557	27,557	-	(22)	-	27,535
Loans and advances to customers	843,448	608,207	235,241	(87,682)	(101,579)	654,187
Financial assets available for sale	31,304	31,304	-	-	-	31,304
Total	**1,338,836**	**1,103,595**	**235,241**	**(87,704)**	**(101,579)**	**1,149,553**
31 December 2012						
Cash and due from other banks including obligatory reserves with CBBiH	357,871	357,871	-	-	-	357,871
Placements with other banks	53,614	53,614	-	(49)	-	53,565
Loans and advances to customers	994,017	717,085	276,737	(44,287)	(64,152)	885,383
Financial assets available for sale	25,931	25,931	-	-	-	25,931
Total	**1,431,433**	**1,154,501**	**276,737**	**(44,336)**	**(64,152)**	**1,322,750**

(all amounts are expressed in thousands of KM)

33. CREDIT RISK (CONTINUED)

Loan exposure and collaterals

The Bank estimates the fair value of collateral based on recoverable amount of collateral in case that collateral needs to be liquidated under the current market conditions.

Different types of collateral bear different level of risks for the Bank.

	Maximum loan exposure		Fair value of collateral	
Description	Net exposure	Liabilities / issued guarantees	Allowed sale / new collateral	Not allowed sale / new collateral
31 December 2013				
Cash and due from banks including obligatory reserves with CBBiH	436,527	-	-	-
Placements with other banks	27,535	-	-	-
Loans and advances to customers	654,187	93,690	1,042,594	-
Financial assets available for sale	31,304	-	-	-
31 December 2012				
Cash and due from banks including obligatory reserves with CBBiH	357,871	-	-	-
Placements with other banks	53,565	-	-	-
Loans and advances to customers	885,353	124,720	1,121,783	-
Financial assets available for sale	25,931	-	-	-

34. BASIC LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss attributable to ordinary shareholders by weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

For the purpose of calculating basic earnings per share, preferred shares are considered as ordinary shares as they do not bear preferential dividend right.

	2013	2012
Loss attributable to ordinary shareholders (KM '000)	(116,142)	(11,084)
Weighted average number of regular shares outstanding	507,466	507,466
Basic loss per share (KM)	**(228.87)**	**(22.97)**

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

35. EVENTS AFTER THE REPORTING PERIOD DATE

- Based on Supervisory Board Resolution on dismissal as of 20 December 2013, Mr. Alexander Picker has been released from positions of Director and President of the Management Board of Hypo Alpe-Adria-Bank d.d. Decision came into force as of 1 January 2014, when all of his rights and obligations as a Director and Member ceased to exist in accordance with applicable regulations and Bank internal documents.
- As of 8 April 2014 the Parent has been transferred all its 532,492 shares to Hypo SEE Holding AG. Such transaction has been registered by Registry of Securities of the Federation Bosnia and Hercegovina.

36. APPROVAL OF THE FINANCIAL STATEMENTS

These unconsolidated financial statements were approved by the Management Board on 15 April 2014.

Signed on behalf of the Management Board:

Dragan Kovačević
Acting Director

HYPO ALPE-ADRIA-BANK
MOSTAR

Dmytro Kolechko
Executive Director

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This Annual report has been prepared with great care and the information it contains has been checked. The possible occurrence of rounding errors, typesetting and printing errors and errors in expression can however not be precluded. The English language report is a translation.