

**BOR BANKA D.D. SARAJEVO**

Financial statements for the year ended  
31 December 2015 prepared in accordance  
with International Financial Reporting Standards  
and Independent Auditor's Report

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## Responsibility for the financial statements

The Management Board is responsible for ensuring that financial statements are prepared for each financial period in accordance with International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board (IASB, which give a true and fair view of the state of affairs and results of BOR Banka d.d. Sarajevo (the "Bank") for that period.

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 Accounting and Audit Law in the Federation of Bosnia and Herzegovina. The Management Board is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board

Hamid Pršeš  
Director


BOR Banka d.d.  
Obala Kulina bana 18  
71000 Sarajevo  
Bosnia and Herzegovina

10 February 2016

## Independent Auditor's Report

### To the Shareholders of BOR Banka d.d. Sarajevo

We have audited the accompanying financial statements of BOR Banka d.d. Sarajevo (the "Bank"), set out on pages 3 to 46 which comprise of the balance sheet as at 31 December 2015, and the 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 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.

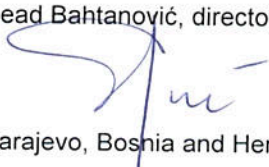
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2015, and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

#### **Deloitte d.o.o.**

Sead Bahtanović, director and licensed auditor

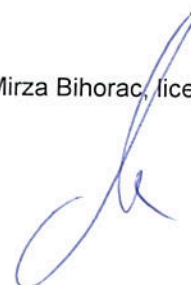


Sarajevo, Bosnia and Herzegovina

10 February 2016



Mirza Bihorac, licensed auditor



Income statement  
for the year ended 31 December 2015

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

	Notes	2015	2014
Interest and similar income	5	10,744	12,210
Interest expenses	6	(3,183)	(3,870)
<b>Net interest income</b>		<b>7,561</b>	<b>8,340</b>
Fee and commission income	7	1,067	1,462
Fee and commission expense		(288)	(258)
<b>Net fee and commission income</b>		<b>799</b>	<b>1,204</b>
Other (losses) / gains, net	8	(1,511)	253
Other operating income		708	451
<b>Operating income</b>		<b>7,537</b>	<b>10,248</b>
Personnel expenses	9	(2,482)	(2,399)
Depreciation and amortisation expenses	21	(672)	(706)
Other administrative expenses	10	(1,935)	(1,919)
<b>Operating expenses</b>		<b>(5,089)</b>	<b>(5,024)</b>
<b>PROFIT BEFORE IMPAIRMENT LOSSES, PROVISIONS AND TAXATION</b>		<b>2,448</b>	<b>5,224</b>
Impairment losses and provisions	11	(47)	(4,735)
<b>PROFIT BEFORE TAXATION</b>		<b>2,401</b>	<b>489</b>
Income tax expense	12	(269)	(357)
<b>NET PROFIT</b>		<b>2,132</b>	<b>132</b>
<b>Earnings / (Loss) per share – basic and diluted (in KM)</b>	13	<b>10.87</b>	<b>(1.30)</b>

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

Statement of comprehensive income  
for the year ended 31 December 2015

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

	Notes	2015	2014
Net profit		2,132	132
<b>Other comprehensive income:</b>			
<i>Items that will not be reclassified subsequently to profit and loss:</i>			
Net effects of property revaluation	21	(5,144)	-
<i>Items that will be reclassified subsequently to profit and loss when specific conditions are met:</i>			
Net change in fair value of financial assets available-for-sale	18	-	(154)
		<b>(5,144)</b>	<b>(154)</b>
<b>TOTAL COMPREHENSIVE LOSS</b>		<b>(3,012)</b>	<b>(22)</b>

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

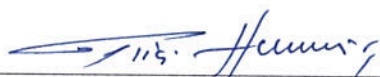
Balance sheet  
as of 31 December 2015

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

	Notes	31 December 2015	31 December 2014
<b>ASSETS</b>			
Cash and cash equivalents	14	30,950	11,990
Obligatory reserve with Central Bank of Bosnia and Herzegovina	15	32,707	21,044
Placements with other banks	16	9,990	18,473
Loans to customers, net	17	150,290	165,644
Financial assets available-for-sale	18	1,893	3,114
Financial assets held-to-maturity	19	397	299
Other assets and receivables, net	20	198	143
Tangible and intangible assets	21	13,151	18,706
<b>TOTAL ASSETS</b>		<b>239,576</b>	<b>239,413</b>
<b>LIABILITIES</b>			
Due to financial institutions	22	20,888	23,480
Due to the Government of the Federation of Bosnia and Herzegovina	23	40,364	40,346
Due to customers	24	133,099	129,256
Provisions	25	529	720
Other liabilities	26	75	243
<b>Total liabilities</b>		<b>194,955</b>	<b>194,045</b>
<b>EQUITY</b>			
Share capital	27	31,366	29,166
Other reserves		10	10
Regulatory reserves		1,465	1,465
Revaluation reserve for property		7,200	12,502
Revaluation reserve for investments		-	(407)
Retained earnings		4,580	2,632
<b>Total equity</b>		<b>44,621</b>	<b>45,368</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>239,576</b>	<b>239,413</b>

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

Signed on behalf of the Bank on 10 February 2016:



Hamid Pršeš

Director




Aida Alić

Executive director for  
Accounting and assets

Statement of cash flows  
for the year ended 31 December 2015

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

	<u>2015</u>	<u>2014</u>
<b>Operating activities</b>		
Profit before taxation	2,401	489
<i>Adjustments:</i>		
Depreciation and amortization	672	706
Impairment losses and provisions	47	4,735
Loss on disposal of financial assets available-for-sale	1,628	-
Loss on disposal of equipment	-	4
Foreign exchange differences, net	(117)	(253)
Interest income recognized in the income statement	(10,744)	(12,210)
Interest expense recognized in the income statement	3,183	3,870
<i>Changes in assets and liabilities:</i>		
(Increase) / decrease in obligatory reserve with Central Bank of BiH	(11,663)	410
Net decrease of placements with other banks	7,274	4,034
Net decrease / (increase) in loans to customers, before allowance	16,636	(9,362)
Net decrease in other assets and receivables	33	23
Net increase / (decrease) liabilities to customers	3,843	(4,423)
Net (decrease) / increase in other liabilities	(19)	41
	<u>13,174</u>	<u>(11,936)</u>
Interest paid	(3,183)	(3,870)
Interest received	10,768	11,959
Income tax paid	(506)	-
<b>NET CASH FROM / (USED IN) OPERATING ACTIVITIES</b>	<b><u>20,253</u></b>	<b><u>(3,847)</u></b>
<b>Investing activities</b>		
Proceeds from / (purchases of) financial assets available-for-sale, net	-	(298)
Purchases of tangible and intangible assets	(261)	(425)
Proceeds from repossessed collateral sold	-	51
Purchase of financial assets held-to-maturity	(98)	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b><u>(359)</u></b>	<b><u>(672)</u></b>
<b>Financing activities</b>		
Additional equity	2,200	-
(Repayment of) / increase in liabilities to financial institutions, net	(2,810)	709
Increase in liabilities to the Government of the Federation of Bosnia and Herzegovina	18	399
Dividends paid	(342)	(699)
<b>NET CASH (USED IN) / GENERATED FROM FINANCING ACTIVITIES</b>	<b><u>(934)</u></b>	<b><u>409</u></b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b><u>18,960</u></b>	<b><u>(4,110)</u></b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR</b>	<b><u>11,990</u></b>	<b><u>16,100</u></b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR</b>	<b><u>30,950</u></b>	<b><u>11,990</u></b>

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



Statement of changes in equity  
for the year ended 31 December 2015

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

	Share Capital	Other reserve	Regulatory reserves	Revaluation reserve for properties	Revaluation reserve for investments	Retained earnings	Total
<b>Balance as of 31 December 2013</b>	<b>29,166</b>	<b>10</b>	<b>1,465</b>	<b>12,660</b>	<b>(253)</b>	<b>3,041</b>	<b>46,089</b>
Net profit	-	-	-	-	-	132	132
Other comprehensive loss	-	-	-	-	(154)	-	(154)
<i>Total comprehensive loss</i>	-	-	-	-	(154)	132	(22)
Transfer from / to	-	-	-	(158)	-	158	-
Allocation of dividends	-	-	-	-	-	(699)	(699)
<b>Balance as of 31 December 2014</b>	<b>29,166</b>	<b>10</b>	<b>1,465</b>	<b>12,502</b>	<b>(407)</b>	<b>2,632</b>	<b>45,368</b>
Net profit	-	-	-	-	-	2,132	2,132
Other comprehensive loss	-	-	-	(5,144)	-	-	(5,144)
<i>Total comprehensive loss</i>	-	-	-	(5,144)	-	2,132	(3,012)
VII share emission	2,200	-	-	-	-	-	2,200
Transfer from / to	-	-	-	(158)	-	158	-
Allocation of dividends	-	-	-	-	-	(342)	(342)
Permanent impairment of investments (Notes 8 and 18)	-	-	-	-	407	-	407
<b>Balance as of 31 December 2015</b>	<b>31,366</b>	<b>10</b>	<b>1,465</b>	<b>7,200</b>	<b>-</b>	<b>4,580</b>	<b>44,621</b>

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

Notes to the financial statements  
for the year ended 31 December 2015

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

**1. GENERAL**

BOR Banka d.d. Sarajevo (the "Bank") is registered at the Municipality court in Sarajevo, registration No. UFI/I/2609/95 dated 27 December 1995, under name Banka za obnovu i razvoj Bosne i Hercegovine. Based on the court registration No. UFI/I-3730/00, dated 9 January 2007, the Bank has changed name into BOR Banka d.d. Sarajevo.

Principal activities of the Bank are:

1. receiving and placing of deposits;
2. purchase and selling of securities;
3. receiving of term and demand deposits;
4. making and purchasing of loans;
5. buying and selling foreign currencies;
6. cash transactions in interbank market;
7. cash payment and transfer, both national and abroad; and
8. debit/credit card operations.

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.

The registered address of the Bank is Obala Kulina Bana 18, 71000 Sarajevo. As at 31 December 2015, the Bank had 64 employees (31 December 2014: 64 employees).

**Supervisory Board**

***Until 25 March 2015***

Aziz Šunje	Chairman
Adem Abdić	Member
Hasan Đozo	Member
Hasen Mašović	Member
Hajrudin Hadžimehanović	Member

***Since 23 June 2015***

Aziz Šunje	Chairman
Adem Abdić	Member
Hasan Đozo	Member
Džejna Bajramović	Member
Alen Gradašćević	Member

**Management Board**

***Until 8 September 2015***

Hamid Pršeš	Director
Muhamed Šehbajraktarević	Executive director for legal, personnel and general services
Enisa Hulusić	Executive director for accounting, analysis and IT
Bedina Jusičić- Musa	Executive director for risk management
Adela Zorlak	Executive director for retail sales

***Since 26 November 2015***

Hamid Pršeš	Director
Muhamed Šehbajraktarević	Executive director for support
Bedina Jusičić Musa	Executive director for risk management
Aida Alić	Executive director for accounting and assets
Edin Kreštalica	Executive director sales

**Audit Committee**

***Until 12 April 2015***

Tihomir Ćurak	Chairman
Senad Herenda	Member
Elma Oković - Badnjević	Member
Senajid Zajmović	Member
Denis Lasić	Member

***Since 7 July 2015***

Muhamed Hubanić	Chairman
Tayyar Ozerdem	Member
Tarik Karić	Member
Senaid Zajimović	Member
Dragan Prusina	Member

Notes to the financial statements  
for the year ended 31 December 2015

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

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## 2. ADOPTION OF NEW AND REVISED STANDARDS

### 2.1 Standards and Interpretations effective in the 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:

- Amendments to IAS 19: "Employee Benefits" – Defined employee benefit plans: employee contributions (effective for annual periods beginning on or after 1 July 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);

The adoption of these standards, amendments 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, revisions and interpretations were in issue but not yet effective:

- IFRS 9: "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018),
- IFRS 14: "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016),
- IFRS 15: "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018),
- IFRS 16: "Leases" (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 10: "Consolidated Financial Statements" and IAS 28: "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 10: "Consolidated Financial Statements" and IAS 28: "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date postponed indefinitely),
- Amendments to IAS 1: "Presentation of Financial Statements" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11: "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16: "Property, Plant and Equipment" and IAS 38: "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16: "Property, Plant and Equipment" and IAS 41: "Agriculture" - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 27: "Separate Financial Statements" - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2017),

Notes to the financial statements  
for the year ended 31 December 2015

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

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**2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)**

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

- Amendments to IAS 7: "Statement of Cash Flows" – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 12: "Income Taxes" – Recognition of deferred tax assets from non-performed losses (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IFRS 10: "Consolidated Financial Statements", IFRS 12: "Disclosure of Interests in Other Entities" and IAS 28: "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016);
- Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and 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 2016);

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Bank in the period of initial application, except for IFRS 9.

**3. BASIS FOR PRESENTATION AND 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.

**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.

**Basis of presentation**

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

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

Fair value is the price that would be received to sell or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the 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 measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition to financial reporting, fair value indicators are classified at levels 1, 2 or 3 based on the degree to which the evaluation of the fair value can be seen and of the importance of evaluating the fair value in a whole, as follows:

Notes to the financial statements  
for the year ended 31 December 2015

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

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**3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of presentation (continued)**

- Level 1 inputs are quoted prices (uncorrected) on active markets for identical assets or liabilities that the Bank may access on the measurement date; fair value indicators are those derived from quoted prices in active markets
- Level 2 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 not observable inputs for the asset or liability.

The financial statements are presented in convertible marks (KM), since that is the currency in which the majority of the Bank's business events is expressed. Convertible Mark is officially tied to the euro (1 EUR = 1.95583 BAM).

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as at the reporting period date and actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimates are changed, and eventually in future periods, if they have an impact on them.

Information on areas with significant uncertainty in the estimates and critical judgments in applying accounting policies that have the most significant effect on the amounts and disclosures in the financial statements, are disclosed in Note 4.

**Interest income and expense**

Interest income / expense is recognized in the income statement for the period that belongs to, at the applicable effective interest rate, which is the rate that exactly discounts estimated future cash receipts / payments (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 / liability, or, where appropriate, a shorter period.

**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 recognized in the period when services are rendered.

**Employee benefits**

On behalf of its employees, the Bank pays personal income tax and contributions for pension, disability, health and unemployment insurance, on and from salaries, which are calculated as per the set legal rates during the course of the year on the gross salary. The Bank pays the tax and contributions in the favour of the institutions of the Federation of Bosnia and Herzegovina (on federal and cantonal levels). In addition, meal allowances, transport allowances and vacation bonuses are paid in accordance with the local legislation. These expenses are recognized in the income statement in the period in which the salary expense is incurred.

Notes to the financial statements  
for the year ended 31 December 2015

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

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**3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Employee benefits (continued)**

***Retirement severance payments***

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

The cost of retirement severance payments are recognized when earned, based on actuary calculation.

**Taxation**

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

***Current income tax***

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

***Deferred income tax***

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

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

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

Notes to the financial statements  
for the year ended 31 December 2015

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

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**3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments**

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

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

**a) 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.

Financial assets are classified into the following specified categories: "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. Currently, the Bank has no financial assets at FVTPL.

***Effective interest rate method***

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: "held-to-maturity investments" and "loans and receivables".

***Loans and receivables***

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

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

***Held-to-maturity investments***

Government bonds with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

Notes to the financial statements  
for the year ended 31 December 2015

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

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**3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments (continued)**

**a) Financial assets (continued)**

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

Listed shares held by the Bank that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in the Note 32. Gains and losses arising from changes in fair value are recognized directly in equity in the revaluation reserve for investments with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the revaluation reserve for investments is included in profit or loss for the period.

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

***Impairment of financial assets***

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

Objective evidence of impairment could include:

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

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed on a group basis. Individually significant financial assets that are not impaired are included in the basis for impairment on a group basis. For the purpose of group assessment of impairment, financial assets are grouped on the basis of similar credit risk characteristics.

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

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

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



Notes to the financial statements  
for the year ended 31 December 2015

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

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**3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments (continued)**

**a) Financial assets (continued)**

***Impairment of financial assets (continued)***

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.

**b) Financial liabilities and equity instruments issued by the Bank**

***Classification as debt or equity***

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

***Equity instruments***

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

***Financial guarantee contract liabilities***

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

- the amount of the obligation under the contract, as determined in accordance with IAS 37: "Provisions, Contingent Liabilities and Contingent Assets";
- and 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'.

***Other financial liabilities***

Other financial liabilities, including borrowings and due to customers, 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.

Notes to the financial statements  
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*(all amounts are expressed in thousands of KM, unless otherwise stated)*

**3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments (continued)**

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

***Financial liabilities (continued)***

*Derecognition of financial liabilities*

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

**Property and equipment**

Property is stated in the balance sheet at its revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on the revaluation of such property is recognized in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such property is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve for properties relating to a previous revaluation of that asset.

Equipment is stated 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.

Properties in the course of construction for administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use.

The gain or loss arising on the disposal or retirement of an asset is recognized in the income statement in the period they occur.

Depreciation is charged from the moment the asset is ready for its intended use. Depreciation is calculated on a straight-line basis over the estimated useful life of the applicable assets. Estimated depreciation rates were as follows:

	<b>2015</b>	<b>2014</b>
Buildings	1.3%	1.3%
Computers	33.30%	33.30%
Vehicles	15.5%	15.5%
Furniture and other office equipment	10%-20%	10%-20%

***Impairment***

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

Notes to the financial statements  
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*(all amounts are expressed in thousands of KM, unless otherwise stated)*

**3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property and equipment (continued)**

***Impairment (continued)***

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

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

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

**Intangible assets**

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

**Foreign currency translation**

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

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

<b>31 December 2015</b>	1 EUR = 1.95583 KM	1 USD = 1.790070 KM	1 KWD = 5.845585 KM
<b>31 December 2014</b>	1 EUR = 1.95583 KM	1 USD = 1.608413 KM	1 KWD = 5.389500 KM

**Provisions**

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

Notes to the financial statements  
for the year ended 31 December 2015

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

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**3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Provisions (continued)**

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

**Equity and reserves**

***Share capital***

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

***Regulatory reserves for credit losses***

Regulatory reserves for credit losses are recognized in accordance with regulations of FBA. Regulatory reserves for credit losses are non-distributable.

***Retained earnings***

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

***Revaluation reserve for property***

Revaluation reserve for properties includes the cumulative effects of increase in the carrying amount of properties arising on the revaluation of them.

***Revaluation reserve for investments***

Revaluation reserve for investments comprises changes in fair value of financial assets available-for-sale.

***Dividends***

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

**Earnings per share**

The Bank publishes basic and diluted earnings per share (EPS) data.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

During 2014 and 2015 there were no dilution effects.

**4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Bank's accounting policies, which are described in Note 3, the Management is required to make judgments, estimates and 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.

Notes to the financial statements  
for the year ended 31 December 2015

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

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**4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY  
(CONTINUED)**

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 period.

***Useful lives of property and equipment***

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

***Impairment losses on loans and receivables***

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

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

The Bank monitors the creditworthiness of its customers on an ongoing basis. The need for impairment of the Bank's on- and off-balance-sheet credit risk exposures is assessed on a monthly basis. Impairment losses are made mainly against the carrying value of loans to corporate and retail customers and as provisions for liabilities and charges arising from off-balance-sheet risk exposure to customers, mainly in the form of unused loan facilities and guarantees. Impairment losses are also considered for credit risk exposures to banks and for other assets not carried at fair value, where the primary risk of impairment is not credit risk.

With regard to the financial assets carried at amortized cost, the Bank first assesses whether objective evidence of impairment exists individually for assets that are individually significant and collectively for assets that are not individually significant.

In assessing collective impairment the following guidelines are used:

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

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

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**4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY  
(CONTINUED)**

**Key sources of estimation uncertainty (continued)**

***Impairment losses on loans and receivables (continued)***

***Regulatory reserves calculated in accordance with FBA regulations***

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

The regulatory provisions include both specific and general provisions. The general provision is added back as Tier 2 capital in the computation of capital adequacy under FBA rules.

***Fair value of financial instruments***

As described in Note 31, the Management use their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial instruments, other than loans and receivables, and financial assets held-to-maturity, are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates.

**5. INTEREST AND SIMILAR INCOME**

	<u>2015</u>	<u>2014</u>
Interest on corporate loans	9,503	10,770
Interest on retail loans	1,221	1,388
Interest on financial assets held-to-maturity	18	19
Interest on placements with other banks	2	12
Interest on placements with CBBH	-	21
	<u>10,744</u>	<u>12,210</u>

**6. INTEREST EXPENSES**

	<u>2015</u>	<u>2014</u>
Interest on deposits from companies	1,589	2,266
Interest on the Government of FBiH funds	798	792
Interest on deposits from individuals	520	482
Interest on borrowings from financial institutions	276	330
	<u>3,183</u>	<u>3,870</u>