

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

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

7. FEE AND COMMISSION INCOME

	<u>2015</u>	<u>2014</u>
Fees from payment transactions	464	636
Fees from off-balance sheet transactions	461	583
Fees from managed funds	99	200
Fees from conversion transactions	36	36
Other fee and commission income	7	7
	<u>1,067</u>	<u>1,462</u>

8. OTHER (LOSSES) / GAINS, NET

	<u>2015</u>	<u>2014</u>
Loss on disposal of shares of Privredna banka Sarajevo d.d. Sarajevo	(1,628)	-
Foreign exchange differences, net	117	253
	<u>(1,511)</u>	<u>253</u>

9. PERSONNEL EXPENSES

	<u>2015</u>	<u>2014</u>
Net salaries	1,217	1,238
Taxes and contributions	750	759
Meal allowance and transport	237	237
Other	278	165
	<u>2,482</u>	<u>2,399</u>

The average number of employees of the Bank was 65 during the year ended 31 December 2015, and 66 during the year ended 31 December 2014.

10. OTHER ADMINISTRATIVE EXPENSES

	<u>2015</u>	<u>2014</u>
Service costs	402	413
Memberships	309	301
Maintenance	204	159
Advertising and entertainment	198	151
Energy costs	121	136
Taxes and contributions	105	170
Fees to the members of Supervisory Board and Audit Committee	84	113
Telecommunication	79	79
Material costs	72	64
Insurance	37	36
Other costs	324	197
	<u>1,935</u>	<u>1,919</u>

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11. IMPAIRMENT LOSSES AND PROVISIONS

	Notes	2015	2014
Impairment losses on placements with other banks	16	1,209	1,159
Impairment losses on loans, net	17	(971)	3,454
Additional provisions for commitments and contingencies	25	(191)	187
Allowance / (release of) for impairment losses on investments	18	-	(65)
		47	4,735

12. INCOME TAX EXPENSE

Total tax recognized in the income statement may be presented as follows:

	2015	2014
Current income tax	269	357
Deferred income tax	-	-
	269	357

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

	2015	2014
Profit before income tax	2,401	489
Tax calculated at rate of 10%	240	49
Effects of non-deductible expenses	29	308
Current income tax	269	357
Effective tax rate	11.20%	73.01%

13. EARNINGS PER SHARE

	2015	2014
Net profit	2,132	132
Less: preference dividends	(342)	(342)
	1,790	(210)
Weighted average number of ordinary shares	164,699	162,014
Basic earnings / (loss) per share (in KM)	10.87	(1.29)

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14. CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014
Current account with CBBH	30,396	11,161
Cash at hand in domestic currency	351	457
Cash at ATMs	127	209
Cash at hand in foreign currencies	76	163
	30,950	11,990

Cash and cash equivalents are expected to be recovered within the twelve months after the reporting period date.

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

	31 December 2015	31 December 2014
Specific reserve by Law on banks, article 42 a	24,073	11,686
Obligatory reserve with CBBH	8,634	9,358
	32,707	21,044

In accordance with Law on banks (article 42 a.), the Bank is obliged to hold 50% of daily balance of received payments from public funds, deposits and transactions for budgetary and off budgetary funds in cash as specific reserve in CBBH. This refers to funds and transactions of clients: Agencija za vodno područje rijeke Save, Municipality Stari Grad, Municipality Centar, Municipality Novo Sarajevo, Ministry of Finance FBiH, and Federal Retirement Insurance Fund, and 50% of these funds amounted to KM 24,073 thousand as of 31 December 2015.

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

Average interest rate on assets kept up to minimum obligatory reserve within CBBH was 0.00% (2014: 0.00% - 0.147%), and for the amount held at accounts of CBBH above the obligatory reserve interest rate was 0.00% (2014: 0.00%- 0.189%). Cash held at the obligatory reserve account with CBBH is not available for daily operations without specific approval from CBBH and FBA.

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16. PLACEMENTS WITH OTHER BANKS

	31 December 2015	31 December 2014
Loans to banks:		
Banka Srpske a.d. Banja Luka (Balkan Investment Bank a.d.)	905	1,755
A vista deposits in foreign currencies:		
Deutsche Bank AG, Njemačka	2,311	4,641
National Bank of Kuwait	1,948	1,208
Raiffeisen Zentralbank AG, Austrija	1,419	3,409
KBC Brussels, Belgija	877	1,494
Zagrebačka banka d.d., Hrvatska	696	488
Swedbank AB, Švedska	476	423
Nova Ljubljanska banka d.d., Slovenija	399	688
Svenska Handelsbanken AB, Švedska	74	74
AHLI United Bank London, Velika Britanija	-	62
	8,200	12,487
A vista deposits in domestic currency:		
Bobar Banka a.d. Bijeljina	2,500	2,500
Sparkasse Bank d.d. Sarajevo	9	29
	2,509	2,529
Term deposits in foreign currencies:		
Raiffeisen Bank International AG, Austrija	895	804
AHLI United Bank London, Velika Britanija	-	1,886
Zagrebačka banka d.d., Hrvatska	-	322
	895	3,012
Term deposits in domestic currency		
Sparkasse Bank d.d. Sarajevo	25	25
Total placements before allowance for impairment losses	12,534	19,808
Less: Allowance for impairment losses		
Bobar banka a.d. Bijeljina	(2,500)	(1,250)
Banka Srpske a.d. Banja Luka (Balkan Investment Bank a.d.)	(18)	(38)
Raiffeisen Bank International AG, Austrija	(18)	(16)
Nova Ljubljanska banka d.d., Slovenija	(8)	(14)
Zagrebačka banka d.d., Hrvatska	-	(16)
Sparkasse bank d.d. Sarajevo	-	(1)
	(2,544)	(1,335)
	9,990	18,473
Expected to be recovered:		
- no more than twelve months after the reporting period	12,534	18,877
- more than twelve months after the reporting period	-	931
Less: Allowance for impairment losses	(2,544)	(1,335)
	9,990	18,473

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16. PLACEMENTS WITH OTHER BANKS (CONTINUED)

Annual interest rates for foreign currency placements may be presented as follows

	<u>2015</u>	<u>2014</u>
	% p.a.	% p.a.
Placements in EUR	0.00 – 0.01	0.01 - 0.13
Placements in USD	0.00 – 0.01	0.03 - 0.16
Placements in KWD	0.00 – 0.00	0.15 - 0.50
Placements in SEK	-0.51 – 0.00	-

Changes in allowance for impairment losses on placements with other banks may be presented as follows:

	<u>2015</u>	<u>2014</u>
Balance at beginning of the year	1,335	176
Increase in allowances (Note 11)	1,226	1,305
Release of allowances (Note 11)	(17)	(146)
Balance at end of the year	2,544	1,335

17. LOANS TO CUSTOMERS, NET

	<u>31 December 2015</u>	<u>31 December 2014</u>
<i>Short-term loans (including current portion of long-term loans):</i>		
Corporate loans	30,155	33,119
Retail loans	726	717
Current portion of long-term loans	26,009	29,336
	<u>56,890</u>	<u>63,172</u>
<i>Long-term loans (excluding current portion):</i>		
Corporate loans	128,210	140,706
Retail loans	15,822	17,339
Current portion of long-term loans	(26,009)	(29,336)
	<u>118,023</u>	<u>128,709</u>
Gross loan receivables	174,913	191,881
Less: Long-term accrued income	(1,486)	(1,722)
Less: Allowance for impairment losses based on individual assessment	(18,412)	(18,801)
Less: Allowance for impairment losses based on group assessment	(4,725)	(5,714)
	<u>(23,137)</u>	<u>(24,515)</u>
	<u>150,290</u>	<u>165,644</u>

The Bank is approving the both short-term and long-term loans. Majority of short-term loans has been approved to customers for working capital. Long-term loans mostly have been approved to legal entities for different investment activities, as well as for working capital.

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17. LOANS TO CUSTOMERS, NET (CONTINUED)

Long-term accrued income

The Bank signed two contracts with Privredna Banka Sarajevo d.d. Sarajevo and Ministry of Finance of the Federation of Bosnia and Herzegovina on the purchase of loan receivables. Discount that represents difference between nominal value of portfolio and purchase price is recognized as interest income at maturity, based on individual repayment of separate loans.

	<u>31 December 2015</u>	<u>31 December 2014</u>
Ministry of Finance of the Federation of Bosnia and Herzegovina	1,064	1,116
Privredna banka Sarajevo d.d. Sarajevo	412	588
Accrued income – Fenix d.o.o. Kladanj	10	18
	<u>1,486</u>	<u>1,722</u>

Changes in allowance for impairment losses on loans to customers may be presented as follows:

	<u>2015</u>	<u>2014</u>
Balance at beginning of the year	24,515	20,727
Increase in allowances (Note 11)	14,511	15,157
Release of allowance (Note 11)	(15,482)	(11,703)
Write-offs	(742)	-
Forex	335	334
Balance at end of the year	23,137	24,515

Weighted average interest rate can be presented as follows:

	<u>31 December 2015</u>	<u>31 December 2014</u>
Corporate	2.00% - 10.00%	2.00% - 10.00%
Retail	2.85% - 10.90%	2.85% - 10.90%

Analysis of gross loan receivables by industry:

	<u>31 December 2015</u>	<u>31 December 2014</u>
Agricultural, forestry, mining and energy	57,225	52,512
Trade	41,718	54,066
Individuals	16,512	18,056
Services, finance sector, sport and tourism	11,912	10,708
Transportation and telecommunication	9,577	12,684
Construction	8,228	11,280
Administration and other public institutions	4,120	7,697
Other	25,621	24,878
	<u>174,913</u>	<u>191,881</u>

Amounts presented in the table above include outstanding principal increased by interest receivables and reduced by origination fees collected in advance, as of 31 December 2015 and 31 December 2014.

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18. FINANCIAL ASSETS AVAILABLE-FOR-SALE

	Industry	% of ownership	31 December 2015	31 December 2014
Privredna banka Sarajevo d.d. Sarajevo	Banking	9.09	1,831	3,052
Securities' Register in the Federation of Bosnia and Herzegovina	Capital market	2.75	59	59
Bamcard d.d. Sarajevo	Capital market	0.10	3	3
			1,893	3,114

Movements in the fair value of these assets were as follows:

	2015	2014
Balance at beginning of the year	3,114	2,905
Purchases during the year, net	-	298
Change in fair value (through other comprehensive income)	-	(154)
Release of impairment losses (Note 11)	-	65
Impairment (through balance sheet) – Note 8	(1,221)	
Balance at end of the year	1,893	3,114

19. FINANCIAL ASSETS HELD-TO-MATURITY

Issuer	Maturity date	Annual interest	31 December 2015.	31 December 2014.
Ministry of Finance of the Federation of Bosnia and Herzegovina	27 June 2017	6.10%	299	299
Ministry of Finance of the Federation of Bosnia and Herzegovina	22 November 2022	4.20%	98	
			397	299

20. OTHER ASSETS AND RECEIVABLES

	31 December 2015	31 December 2014
Prepaid income tax	88	-
Prepaid expenses	84	95
Other receivables	26	48
	198	143

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21. TANGIBLE AND INTANGIBLE ASSETS

	Land (at revalued amount)	Building (at revalued amount)	Equipment (at cost)	Software and licenses (at cost)	Assets in progress (at cost)	Total
COST / REVALUED AMOUNT						
At 31 December 2013	425	18,103	2,351	1,113	354	22,346
Additions	-	135	60	78	152	425
Transfer (from) / to	-	-	176	-	(176)	-
Disposals	-	-	(77)	-	-	(77)
At 31 December 2014	425	18,238	2,510	1,191	330	22,694
Additions	-	-	190	26	45	261
Impairment	(65)	(6,540)	-	-	-	(6,605)
Transfer (from) / to	-	132	104	102	(338)	-
Disposals	-	-	(27)	(32)	-	(59)
At 31 December 2015	360	11,830	2,777	1,287	37	16,291
ACCUMULATED DEPRECIATION						
At 31 December 2013	-	1,008	1,413	834	-	3,355
Depreciation and amortization charge	-	236	312	159	-	706
Disposals	-	-	(73)	-	-	(73)
At 31 December 2014	-	1,343	1,652	993	-	3,988
Depreciation and amortization charge	-	196	322	154	-	672
Impairment	-	(1,461)	-	-	-	(1,461)
Disposals	-	-	(27)	(32)	-	(59)
At 31 December 2015	-	78	1,947	1,115	-	3,140
NET BOOK VALUE						
As at 31 December 2015	360	11,752	830	172	37	13,151
As at 31 December 2014	425	16,895	858	198	330	18,706

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21. TANGIBLE AND INTANGIBLE ASSETS (CONTINUED)

21.1 Fair value measurement of the Bank's land and buildings

The Bank's land and building are state at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The fair value measurements of the Bank's land and building as at 31 December 2015 were performed by Mr. Muharem Karamujić, from Sarajevo, independent appraiser not related to the Bank, who has appropriate qualifications and recent experience in the fair value measurement of properties in the relevant locations.

The fair value measurements of the Bank's land and building as at 31 December 2014 were performed by Mrs. Amra Hadžić, from Sarajevo, independent appraiser not related to the Bank. Mrs. Hadžić is a court-approved architectural expert, and she has appropriate qualifications and recent experience in the fair value measurement of properties in the relevant locations.

The fair value of the land was determined based on the market comparable approach that reflects recent transaction prices for similar properties.

22. DUE TO FINANCIAL INSTITUTIONS

	31 December 2015	31 December 2014
Ministry of Finance of the Federation of Bosnia and Herzegovina (Sustainable Development Foundation – "ODRAZ")	18,941	18,149
Kuwait Fund for Arabian Economic Development ("KFAED")	1,947	5,331
	20,888	23,480
Maturity analysis:		
Within one year	5,410	5,977
In the second year	3,205	5,973
Third to fifth year	8,497	7,222
After five years	3,776	3,528
	20,888	23,480

On 27 September 2010, the Bank signed subordinated financing contract with the Ministry of Finance of the Federation of Bosnia and Herzegovina and Sustainable Development Foundation (ODRAZ). Initially, the funds have been approved by World Bank for the Project "Improving Finance Accessibility to Small and Medium Enterprises". Repayment of funds is reconciled with collection of approved loans to final customers (maximum granted period of 120 months). During the year 2011 and 2012, the Bank approved 25 loans to legal entities in accordance with loan terms defined by ODRAZ, at interest rate of 6M Euro Libor (from 4.5% to 5.5% p.a.). As of 30 December 2013, the Bank signed new subordinated contract with the Ministry of Finance of the Federation of Bosnia and Herzegovina and ODRAZ for the Project, with final date for withdrawal of funds as of 31 July 2016 and annual interest rate of 6M Euro Libor + 1%. As of 31 December 2015, the Bank approved and implemented 40 projects with the total value of KM 40,653, and all funds were used in accordance with their purpose

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22. DUE TO FINANCIAL INSTITUTIONS (CONTINUED)

On 30 April 1997, the Bank signed Loan Agreement with Kuwait fund for Arabic economic development (KFAED) in amount of KWD 6,100,000 with interest rate of 1.5% p.a. and other annual costs of 0.5%. Up to 31 December 2008, the Bank has signed 4 amendments on loan agreement. The purpose of loans is financing of small and medium legal entities with maturity up to 7 years and with interest rate from 7.5% to 9.5% p.a. till 30 June 2006 and after that date from 7% to 9% p.a. The Government of the Federation of Bosnia and Herzegovina is guarantor for the Bank toward KFAED in accordance with guarantee contract approved by the Parliament of the Federation of Bosnia and Herzegovina, Decision number 20199 dated on 21 July 1999 ("Official Gazette FB&H", number 38/99). The final annuity is due in January 2016, and the Bank completes the repayment of this loan commitment.

Due to necessary changes in ownership' structure related to decrease of state ownership in the Bank, Supervisory Board of the Bank and Board of Directors of KFAED signed Memorandum of Understanding on 14 November 2008, by which the Bank started with accelerated loan repayments and new loan withdrawals from Kuwait credit line have been suspended. Principal is going to be repaid in KWD in 14 unequal semi-annual instalments beginning from 15 January 2009, with final maturity on 15 January 2016.

23. LIABILITIES TOWARD GOVERNMENT OF THE FEDERATION OF BOSNIA AND HERZEGOVINA (THE "FUND")

Based on agreement dated 1 March 2005, between Council of Ministry of Bosnia and Herzegovina and the Government of the Federation of Bosnia and Herzegovina, on 22 August 2005 the Bank signed "Agreement for Permanent Fund Management" (the "Agreement") with the Ministry of Finance of the Federation of Bosnia and Herzegovina. In accordance with the Agreement, Bank accepts credit risk for loans granted from this fund and charges interest payable of 2% p.a. No actual interest payments are made - the credit balance is increased on 28 February every year by the amount of annual interest accrued. The Agreement is valid as long as the Bank possesses the banking license from FBA and is performing its regular banking procedures.

On 18 January 2012, the Government of the Federation of Bosnia and Herzegovina paid into the Fund the amount of KM 3 million (Japanese grant) – funds from the budget of the Federation of Bosnia and Herzegovina. On 11 March 2013, the Government of the Federation of Bosnia and Herzegovina made additional payment in the amount of KM 4 million (Japanese grant – 2 KR).

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24. DUE TO CLIENTS

	31 December 2015	31 December 2014
<i>Demand deposits:</i>		
<i>Individuals:</i>		
In domestic currency	7,170	3,624
In foreign currencies	1,255	3,803
	<u>8,425</u>	<u>7,427</u>
<i>Companies:</i>		
In domestic currency	65,612	52,588
In foreign currencies	4,693	8,013
	<u>70,305</u>	<u>60,601</u>
	<u>78,730</u>	<u>68,028</u>
<i>Term deposits:</i>		
<i>Individuals:</i>		
In domestic currency	6,857	5,966
In foreign currencies	9,088	7,750
	<u>15,945</u>	<u>13,716</u>
<i>Companies:</i>		
In domestic currency	33,534	46,044
In foreign currencies	4,890	1,468
	<u>38,424</u>	<u>47,512</u>
	<u>54,369</u>	<u>61,228</u>
	<u>133,099</u>	<u>129,256</u>

During the year ended 31 December 2015, interest rates were as follows:

- a vista deposits in KM and in foreign currencies - 0.00% p.a. (2014: 0.10% p.a. till 31 August 2014; 0.00% p.a. afterwards);
- short-term deposits - in the range 1.11% to 2.45% p.a. till 30 July 2015; in the range 1.00% to 2.21% p.a. afterwards (2014: 1.53% to 3.20% p.a. till 23 December 2014; in the range 1.11% to 2.45% p.a. afterwards);
- long-term deposits - in the range 1.62% to 4.33% p.a. till 30 July 2015; in the range 1.61% to 4.11% p.a. afterwards (2014: 2.70% to 4.80% p.a. till 23 December 2014; in the range 1.96% to 4.33% p.a. afterwards).

Considering fact of general interest rates decline trend, there were no special offers to individuals for deposits in 2015 as in previous periods.

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25. PROVISIONS

	Commitments and contingencies	Employee benefits	Court proceedings	Total
Balance as of 1 January 2014	471	46	16	533
Additional provisions recognized (Note 11)	232	-	-	232
Reductions resulting from payments	(45)	-	-	(45)
Balance as of 31 December 2014	658	46	16	720
(Release of) / additional provisions recognized (Note 11)	(236)	19	26	(191)
Balance as of 31 December 2015	422	65	42	529

Contingent liabilities (Off-Balance sheet) as of 31 December 2015 were as follows:

	31 December 2015	31 December 2014
Performance bonds	11,327	11,914
Payment guarantees	4,099	9,307
Unused irrevocable loans	4,346	6,585
Bidding guarantees	176	214
	19,948	28,020

26. OTHER LIABILITIES

	31 December 2015	31 December 2014
Liabilities towards suppliers	54	60
Liabilities for income tax	-	149
Liabilities from managed funds (Note 29)	-	3
Liabilities towards employees	-	2
Other	21	29
	75	243

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27. SHARE CAPITAL

Share capital as of 31 December 2015 and 2014 was as follows:

	31. December 2015			31. December 2014		
	KM '000	Number of shares	%	KM '000	Number of shares	%
Ordinary shares						
Pobjeda – Rudet d.d. Goražde	2,602	23,654	13.00%	2,316	21,055	13.00%
Fabrika duhana Sarajevo	1,749	15,900	8.74%	649	5,900	3.64%
Hamid Pršeš	1,648	14,981	8.23%	1,630	14,821	9.15%
Zijad Deljo	1,180	10,729	5.89%	371	3,377	2.08%
Unis Fagas doo Sarajevo	1,139	10,356	5.69%	788	7,166	4.42%
Hasan Đozo	1,108	10,070	5.53%	230	2,092	1.29%
Fond "Bošnjaci" Sarajevo	935	8,496	4.67%	935	8,496	5.24%
Denge Yatirim Holding, Turska	882	8,020	4.41%	819	7,442	4.59%
Halil Oković	829	7,540	4.14%	183	1,660	1.02%
AME doo Breza	743	6,756	3.71%	743	6,756	4.17%
Others	7,206	65,512	35.99%	9,157	83,249	51.38%
	20,021	182,014	100.00%	17,821	162,014	100.00%
Preference shares						
ZIF CROBIH FOND d.d. Mostar	1,364	12,400	12.02%	1,364	12,400	12.02%
Hamid Pršeš	1,263	11,482	11.13%	740	6,727	6.52%
Enver Pršeš	1,217	11,065	10.73%	443	4,029	3.91%
Zijad Deljo	1,054	9,580	9.29%	523	4,750	4.61%
Denge Yatirim Holding, Turska	789	7,175	6.96%	-	-	-
Others	5,658	51,430	49.87%	8,275	75,226	72.94%
	11,345	103,132	100.00%	11,345	103,132	100.00%
	31,366	285,146	100.00%	29,166	265,146	100.00%

As at 31 December 2015 and 2014, the nominal value of all shares is 110 KM. The owners of preference shares have no guaranteed dividend. However, if dividend is declared, they have priority in actual receipt of dividend payments over ordinary shareholders. Preference shareholders also have preferential rights to return capital in case of liquidation.

During 2015, a dividend of KM 3.32 per share - total dividend KM 342 thousand was paid to holders of preference shares (during 2014: KM 3.32 per share - total dividend KM 342 thousand).

The Decision on dividend payment to holders of preference shares of 3.32 KM per share total KM 342 thousand During 2015, a dividend of KM 3.42 per share - total dividend KM 342 thousand (KM 173 thousand preference cumulative shares and KM 169 thousand preference non-cumulative shares), was adopted on the General Assembly meeting on 5 March 2015. On the same meeting, the Assembly adopted the decision to allocate KM 2,440 thousand from unallocated/accumulated profit in previous years to core capital.

On 14 September 2015, during the 44th meeting of the General Assembly, adopted the Decision on increasing owners' equity with the VII issuance of ordinary / managing shares in the amount of KM 2.2 million. In November, share issuance was successfully completed in 100% amount, and on 3 December 2015 the Bank received the Information from the Registry of Securities on the registration of shares and capital increase of KM 2.2 million.

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28. RELATED PARTY TRANSACTIONS

All of the transactions stated below have been made under commercial and banking terms and conditions

	2015		2014	
	Income	Expense	Income	Expense
Shareholders	410	299	641	84
Member of Management Board and their family members	21	-	113	3
Member of Supervisory Board and their family members	10	8	6	85
	441	307	760	172

As of 31 December 2015, balances resulting from transactions with related parties include:

	31 December 2015		31 December 2014	
	Receivables	Liabilities	Receivables	Liabilities
Shareholders	3,567	6,018	9,042	16,665
Member of Supervisory Board and their family members	275	254	85	653
Member of Management Board and their family members	1,479	22	1,584	520
Privredna banka Sarajevo d.d. Sarajevo	1,831	-	3,052	-
	7,152	6,294	13,763	17,838

Management Board and Supervisory Board remuneration

The remuneration of the members of Management Board and Supervisory Board during the year ended 31 December 2015 was as follows:

	2015	2014
Gross salaries of the members of Management Board	385	567
Other benefits of the members of Management Board	50	35
Fees to the members of Supervisory Board	59	74
	494	676

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29. MANAGED FUNDS

Funds managed by the Bank on behalf of individuals, trusts and other institutions are not assets of the Bank and, therefore, are not included in its balance sheet.

The table below provides analysis of the funds managed on behalf of customers by investment type:

	<u>31 December 2015</u>	<u>31 December 2014</u>
LOANS		
Individuals	9,297	8,357
Corporate	<u>324</u>	<u>838</u>
Total	<u>9,621</u>	<u>9,195</u>
LIABILITIES		
Government of Federation of Bosnia and Herzegovina	9,027	8,589
Government of Bosnia and Herzegovina	500	500
Construction Institute of Canton Sarajevo	92	99
International Management Group	-	5
Canton Sarajevo	<u>2</u>	<u>5</u>
Total	<u>9,621</u>	<u>9,198</u>
Current liabilities from managed funds activities (see Note 26)	<u>-</u>	<u>(3)</u>

The Bank does not bear the risk for these placements and charges a fee for its services.

In July 2015, the Bank collected the final annuity for the client International Management Group, and thus the Bank's liabilities on the Agreement with the corresponding annexes ended.

30. FINANCIAL INSTRUMENTS

a) Capital risk management

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

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

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

	<u>31 December 2015</u>	<u>31 December 2014</u>
Debt	194,351	193,082
Equity	<u>43,156</u>	<u>43,903</u>
Net debt to capital ratio	<u>4.50</u>	<u>4.40</u>

Debt is defined as due to financial institutions, due to the Government of the Federation of Bosnia and Herzegovina and due to customers as presented in detail in Notes 22, 23 and 24. Capital includes total share capital, other reserves, revaluation reserves and retained earnings.

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

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

30. FINANCIAL INSTRUMENTS (CONTINUED)

a) Capital risk management (continued)

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

FBA requires each bank to: (a) hold the minimum level of the share capital and the lowest level of net capital (regulatory capital) of KM 15 million, and (b) maintain a ratio of total regulatory capital to the risk-weighted asset at or above the minimum of 12%.

On 30 May 2014, FBA issued new Decision on minimum standards for capital management and capital hedge, effective for 2014). By this decision, the Bank's regulatory capital is divided into two tiers:

- Tier 1 capital or Core Capital: ordinary shares and retained earnings indefinitely allocated by the Bank's shareholders for coverage future net losses (if any), reduced by negative revaluation reserves and intangible assets; and
- Tier 2 capital or Supplementary Capital: preference shares and general regulatory reserves in accordance with FBA regulations (calculated for regulatory reporting only), increased by positive revaluation reserves.

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

As of 31 December 2015 and 2014 the Bank complied with all of the externally imposed capital requirements to which it was subject. As of 31 December 2015 the adequacy of the Bank's capital amounts to 20.03% (2014: 18.22%).

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

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30. FINANCIAL INSTRUMENTS (CONTINUED)

a) Capital risk management (continued)

	31 December 2015	31 December 2014
Core capital – Tier 1 capital		
Ordinary shares	28,485	26,284
Retained earnings	2,440	2,440
Negative revaluation reserves	-	(407)
Less: Intangible assets	(173)	(198)
Total Core capital	30,752	28,119
Supplemental capital - Tier 2 capital		
Preference shares	2,881	2,882
General regulatory reserves under FBA rules	2,209	2,459
Net profit for the current year	-	-
Positive revaluation reserves	7,201	12,502
Total Supplemental capital	12,291	17,843
Deductions from capital		
Investments that exceeding 5% of basic capital	(1,007)	(1,678)
Shortfall in regulatory reserves	(8,479)	(10,127)
Net capital	33,557	34,157
Risk Weighted Assets (unaudited)	155,508	176,317
Weighted Operational Risk (unaudited)	12,012	11,171
Total weighted risk	167,520	187,488
Capital adequacy (%)	20.03%	18.22%

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

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

30. FINANCIAL INSTRUMENTS (CONTINUED)

a) Capital risk management (continued)

Capital adjustment plan

As a result of new Decision of FBA on minimum standards for capital management and capital hedge and including the positive revaluation reserves into Supplementary capital, the Bank's Core capital is significantly reduced by moving the revaluation reserve for property to Supplementary capital. This change led to the breach of limits on credit risk concentration, prescribed by FBA, as of 31 December 2015:

- allowed credit exposure without any collateral, up to 5% of Core capital – breach on 1 clients / groups;
- allowed significant individual credit exposure without first class collateral, up to 25% of Core capital – breach on 1 clients / groups;

The Bank expects to eliminate this breach of limits on credit risk concentration as soon as possible on the client BOBAR banka d.d. in liquidation Bijeljina (possible write off of a portion of receivables based on the assessment of receivable collectability from the liquidation manager), while on the group of related parties (Emka d.o.o. Goražde) activities for complying with the prescribed limits continue to be conducted.

Additionally, as of 31 December 2015, the ratio "tangible assets / Core capital" amounted to 43.95%, meaning that the Bank complied with this parameter that is within the maximum allowed ratio of 50%. The Bank will continue to monitor this ratio in the following period and to acquire new fixed assets according to the movements

The Bank prepared the Capital Adequacy Adjustment Plan for the period 2015 - 2017, which is approved by Supervisory Board and submitted to FBA in September 2014. Due to objective reasons, the Bank has revised this plan, which has been re-approved by Supervisory Board on 11 February 2015 and submitted to FBA.

Management does not expect the negative impact of breach of prescribed FBA's limits on the Bank business activities.

b) Significant accounting policies

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

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for the year ended 31 December 2015

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30. FINANCIAL INSTRUMENTS (CONTINUED)

c) Classes of financial instruments

	31 December 2015	31 December 2014
Financial assets		
Loans and receivables:	224,051	217,199
<i>Cash and cash equivalents (including Obligatory reserves with CBBH)</i>	63,657	33,034
<i>Placements with other banks</i>	9,990	18,473
<i>Loans to customers, net</i>	150,290	165,644
<i>Other receivables</i>	114	48
Financial assets available-for-sale	1,893	3,114
Financial assets held-to-maturity	397	299
	226,341	220,612
Financial liabilities		
At amortised cost:		
<i>Due to financial institutions</i>	20,888	23,480
<i>Due to the Government of the Federation of Bosnia and Herzegovina</i>	40,364	40,346
<i>Due to customers</i>	133,099	129,256
<i>Other liabilities</i>	75	94
	194,426	193,176

d) Financial risk management objectives

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

e) Market risk

The Bank's activities expose it to the financial risks of changes in foreign currency exchange rates and interest rates (see below points f and g).

Market risk exposures are supplemented by sensitivity analysis. There has been no change to the Bank's exposure to market risks or the manner in which it manages and measures the risk.

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30. FINANCIAL INSTRUMENTS (CONTINUED)

f) Foreign currency risk management

The Bank undertakes certain transactions denominated in foreign currencies. The carrying amounts of the Bank's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	KM	EUR	USD	KWD	Other currencies	Total
As of 31 December 2015						
ASSETS						
Cash and cash equivalents	30,874	59	-	-	17	30,950
Obligatory reserve with CBBH	32,707	-	-	-	-	32,707
Placements with other banks	896	4,774	1,825	1,944	551	9,990
Loans to customers, net	101,787	46,159	1,130	1,214	-	150,290
Financial assets available-for-sale	1,893	-	-	-	-	1,893
Financial assets held-to-maturity	299	98	-	-	-	397
Other receivables	112	-	-	2	-	114
Total	168,568	51,090	2,955	3,160	568	226,341
LIABILITIES						
Due to financial institutions	-	18,941	-	1,947	-	20,888
Due to the Government of the Federation of Bosnia and Herzegovina	40,364	-	-	-	-	40,364
Due to customers	101,760	29,081	2,258	-	-	133,099
Other liabilities	75	-	-	-	-	75
	142,262	47,977	2,258	1,929	-	194,426
As of 31 December 2014						
Total Monetary assets	151,756	56,800	4,823	6,514	719	220,612
Total Monetary liabilities	134,050	51,222	2,622	5,282	-	193,176

Foreign currency sensitivity analysis

The Bank is not exposed to foreign currency risk related to EUR due to the fact that Convertible Mark is pegged to Euro (1 EUR = KM 1.95583). Exposure is more prominent for USD and KWD.

The following table details the Bank's sensitivity to a 10% increase and decrease in KM against USD and KWD, 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in USD and KWD. A positive number below indicates an increase in profit where KM strengthens 10% against USD and KWD. For a 10% weakening of KM against USD and KWD, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	USD Impact		KWD Impact	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Profit / (loss)	70	220	123	123

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30. FINANCIAL INSTRUMENTS (CONTINUED)

g) Interest rate risk management

The Bank is exposed to interest rate risk as the Bank places and borrows funds at both fixed and floating interest rates. The risk is managed by the Bank by maintaining an appropriate mix between fixed and floating rate borrowings.

The Bank's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note (see point i).

Interest rate sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Bank' gross result for the year ended 31 December 2015 would increase / decrease by KM 168 thousand (2013: increase / decrease by KM 95 thousand).

h) Credit risk management

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

The Bank's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

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

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

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30. FINANCIAL INSTRUMENTS (CONTINUED)

h) Credit risk management (continued)

Financial assets

	Total gross carrying amount	Unimpaired assets	Individually impaired assets	Individual impairment allowance	Collective impairment allowance	Total net carrying amount
31 December 2015						
Cash and accounts in banks	30,950	30,950	-	-	-	30,950
Obligatory reserve with CBBH	32,707	32,707	-	-	-	32,707
Placements with other banks	12,534	8,199	4,335	(2,500)	(44)	9,990
Loans to customers, net	173,427	3,535	169,892	(18,412)	(4,725)	150,290
Financial assets available-for-sale	1,893	1,893	-	-	-	1,893
Financial assets held-to-maturity	397	397	-	-	-	397
Other receivables	114	114	-	-	-	114
	252,022	77,795	174,227	(20,912)	(4,769)	226,341
31 December 2014						
Cash and cash equivalents	11,990	11,990	-	-	-	11,990
Obligatory reserve with CBBH	21,044	21,044	-	-	-	21,044
Placements with other banks	19,808	16,128	3,680	(1,335)	-	18,473
Loans to customers, net	190,159	6,887	183,272	(18,801)	(5,714)	165,644
Financial assets available-for-sale	3,114	3,114	-	-	-	3,114
Financial assets held-to-maturity	299	299	-	-	-	299
Other receivables	48	48	-	-	-	48
	246,462	59,510	186,952	(20,136)	(5,714)	220,612

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30. FINANCIAL INSTRUMENTS (CONTINUED)

h) Credit risk management (continued)

Credit exposure and collateral

	Credit risk exposure		Fair value of collateral
	Net exposure	Loan commitments / Guarantees	
31 December 2015			
Cash and cash equivalents	30,950	-	-
Obligatory reserve with CBBH	32,707	-	-
Placements with other banks	9,990	-	-
Loans to customers, net	150,290	19,948	364,960
Financial assets available-for-sale	1,893	-	-
Financial assets held-to-maturity	397	-	-
Other receivables	114	-	-
	226,341	19,948	364,960
31 December 2014			
Cash and cash equivalents	11,990	-	-
Obligatory reserve with CBBH	21,044	-	-
Placements with other banks	18,473	-	-
Loans to customers, net	165,644	28,020	477,950
Financial assets available-for-sale	3,114	-	-
Financial assets held-to-maturity	299	-	-
Other receivables	48	-	-
	220,612	28,020	477,950

Fair value of the collaterals

	31 December 2015	31 December 2014
Real estates and movable properties	320,344	460,419
Deposits	3,980	8,196
Other	40,636	9,335
Total	364,960	477,950

Arrears

	Total gross loan portfolio	Not due	Up to 30 days	31 – 90 days	91 – 180 days	181 – 270 days	over 270 days
31 December 2015							
Corporate loans	158,281	125,521	1,251	1,164	426	321	29,598
Retail loans	16,632	15,519	32	70	23	6	982
Total	174,913	141,040	1,283	1,234	449	327	30,580
31 December 2014							
Corporate loans	173,872	145,459	6,982	3,162	1,354	2,602	14,313
Retail loans	18,009	17,052	80	10	2	33	832
Total	191,881	162,511	7,062	3,172	1,356	2,635	15,145

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30. FINANCIAL INSTRUMENTS (CONTINUED)

i) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board, which has built an appropriate liquidity risk management framework for the management of the Bank's short, medium and long-term funding and liquidity management requirements. The Bank manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following table details the Bank's remaining contractual maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Bank anticipates that the cash flow will occur in a different period.

Maturity for financial assets

	Weighted average effective interest rate	Less than 1 month	2 to 6 months	7 months to 1 year	2 to 5 years	Over 5 years	Total
31 December 2015							
Non-interest bearing	-	114	-	-	-	1,893	2,007
Variable interest rate instruments	4.37%	88,962	17,703	16,595	46,623	25,918	195,801
Fixed interest rate instruments	4.35%	12,800	14,521	-	-	-	27,321
		101,876	32,224	16,595	46,623	27,811	225,129
31 December 2014							
Non-interest bearing	-	877	-	-	-	3,114	3,991
Variable interest rate instruments	5.39%	65,343	27,703	23,255	79,289	37,966	233,556
Fixed interest rate instruments	4.46%	7,645	17,777	500	2,820	608	29,350
		73,865	45,480	23,755	82,109	41,688	266,897

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

Maturity for financial liabilities

	Weighted average effective interest rate	Less than 1 month	2 to 6 months	7 months to 1 year	2 to 5 years	Over 5 years	Total
31 December 2015							
Non-interest bearing	-	75	-	-	-	-	75
Variable interest rate instruments	1.70%	67,505	7,248	23,947	21,155	39,657	159,512
Fixed interest rate instruments	1.01%	10,650	8,882	-	-	-	19,532
		78,230	16,130	23,947	21,155	39,657	179,119
31 December 2014							
Non-interest bearing	-	2	92	-	-	-	94
Variable interest rate instruments	1.95%	55,819	11,548	19,898	46,639	45,495	179,399
Fixed interest rate instruments	1.03%	10,557	11,884	45	400	360	23,246
		66,378	23,524	19,943	47,039	45,855	202,739

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

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for the year ended 31 December 2015

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31. FAIR VALUE MEASUREMENT

31.1 Fair value of the 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).

Financial assets / Financial liabilities	Fair value at the date		Fair value hierarchy	Valuation techniques and inputs
	31 December 2015	31 December 2014		
1) Financial assets available-for-sale (see Note 18)	<p>Equity securities listed on the Stock Exchange in Bosnia and Herzegovina:</p> <ul style="list-style-type: none"> Privredna banka Sarajevo d.d., Sarajevo – KM 1,831 thousand <p>Equity securities listed on the Stock Exchange in Bosnia and Herzegovina without trading:</p> <ul style="list-style-type: none"> Registar vrijednosnih papira FBiH d.d. Sarajevo - KM 59 thousand <p>BamCard d.d. Sarajevo – KM 3 thousand</p>	<p>Equity securities listed on the Stock Exchange in Bosnia and Herzegovina:</p> <ul style="list-style-type: none"> Privredna banka Sarajevo d.d., Sarajevo – KM 3,052 thousand <p>Equity securities listed on the Stock Exchange in Bosnia and Herzegovina without trading:</p> <ul style="list-style-type: none"> Registar vrijednosnih papira FBiH d.d. Sarajevo - KM 59 thousand BamCard d.d. Sarajevo – KM 3 thousand 	Level 1	Prices quoted on an active market.
2) Financial assets held-to-maturity (see Note 19)	<p>Debt instruments that are listed on the stock exchange in Bosnia and Herzegovina:</p> <p>Bonds issued from the Government Federation BiH – KM 397 thousand</p>	<p>Debt instruments that are listed on the stock exchange in Bosnia and Herzegovina:</p> <p>Bonds issued from the Government Federation BiH – KM 299 thousand</p>	Level 2	Discounted cash flow valuation technique, considering the last available rate on owned or similar equity securities as yield rate.

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31. FAIR VALUE MEASUREMENT (CONTINUED)

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

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

	31 December 2015		31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial asset				
<i>Loans and receivables:</i>				
- Loans to customers, net	150,290	170,058	165,644	185,255
Financial payables:				
<i>At amortized cost:</i>				
- Due to customers and financial institutions	153,987	154,228	152,736	152,121


Fair value hierarchy as of 31 December 2014

	Fair value hierarchy as of 31 December 2014			
	Level 1	Level 2	Level 3	Total
Financial asset				
<i>Loans and receivables:</i>				
- Loans to customers	-	170,058	-	170,058
	-	170,058	-	170,058
Financial payables:				
<i>At amortized cost:</i>				
- Due to customers, other banks and financial institutions	-	154,228	-	154,228
	-	154,228	-	154,228

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. As the discount rate used in the weighted average interest rate on the state level, published by CBBH separately for legal entities and individuals.

33. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were adopted and approved by the Management Board on 10 February 2016:



Hamid Pršeš

Director




Aida Alić

Executive director for
Accounting and assets