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

Contents

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 DD
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SARAJEVO

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

10 February 2016

Deloitte.

Deloitte d.o.o.
Jadranska bb
71000 Sarajevo
Bosnia and Herzegovina

Tel: +387 (0)33 277 560
Fax: +387 (0)33 277 561
www.deloitte.com/ba

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

Mirza Bihorac, licensed auditor

Deloitte
d.o.o.
Jadranska bb
71000 Sarajevo
ID: 4200047380000

Sarajevo, Bosnia and Herzegovina

10 February 2016

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

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

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
ASSETS			
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
TOTAL ASSETS		**239,576**	**239,413**
LIABILITIES			
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
Total liabilities		**194,955**	**194,045**
EQUITY			
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
Total equity		**44,621**	**45,368**
TOTAL LIABILITIES AND EQUITY		**239,576**	**239,413**

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

Signed on behalf of the Bank on 10 February 2016:

BOR BANKA DD
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SARAJEVO

Hamid Pršeš
Director

Aida Alić
Executive director for Accounting and assets

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

	2015	2014
Operating activities		
Profit before taxation	2,401	489
Adjustments:		
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
Changes in assets and liabilities:		
(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
	13,174	*(11,936)*
Interest paid	(3,183)	(3,870)
Interest received	10,768	11,959
Income tax paid	(506)	-
NET CASH FROM / (USED IN) OPERATING ACTIVITIES	**20,253**	**(3,847)**
Investing activities		
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)	-
NET CASH USED IN INVESTING ACTIVITIES	**(359)**	**(672)**
Financing activities		
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)
NET CASH (USED IN) / GENERATED FROM FINANCING ACTIVITIES	**(934)**	**409**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**18,960**	**(4,110)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	**11,990**	**16,100**
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	**30,950**	**11,990**

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

(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
Balance as of 31 December 2013	**29,166**	**10**	**1,465**	**12,660**	**(253)**	**3,041**	**46,089**
Net profit	-	-	-	-	-	132	132
Other comprehensive loss	-	-	-	-	(154)	-	(154)
Total comprehensive loss	-	-	-	-	*(154)*	*132*	*(22)*
Transfer from / to	-	-	-	(158)	-	158	-
Allocation of dividends	-	-	-	-	-	(699)	(699)
Balance as of 31 December 2014	**29,166**	**10**	**1,465**	**12,502**	**(407)**	**2,632**	**45,368**
Net profit	-	-	-	-	-	2,132	2,132
Other comprehensive loss	-	-	-	(5,144)	-		(5,144)
Total comprehensive loss	-	-	-	*(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
Balance as of 31 December 2015	**31,366**	**10**	**1,465**	**7,200**	**-**	**4,580**	**44,621**

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

(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		***Since 23 June 2015***	
Aziz Šunje	Chairman	Aziz Šunje	Chairman
Adem Abdić	Member	Adem Abdić	Member
Hasan Đozo	Member	Hasan Đozo	Member
Hasen Mašović	Member	Džejna Bajramović	Member
Hajrudin Hadžimehanović	Member	Alen Gradaščević	Member

Management Board

Until 8 September 2015		***Since 26 November 2015***	
Hamid Pršeš	Director	Hamid Pršeš	Director
Muhamed Šehbajraktarević	Executive director for legal, personnel and general services	Muhamed Šehbajraktarević	Executive director for support
Enisa Hulusić	Executive director for accounting, analysis and IT	Bedina Jusičić Musa	Executive director for risk management
Bedina Jusičić- Musa	Executive director for risk management	Aida Alić	Executive director for accounting and assets
Adela Zorlak	Executive director for retail sales	Edin Kreštalica	Executive director sales

Audit Committee

Until 12 April 2015		***Since 7 July 2015***	
Tihomir Ćurak	Chairman	Muhamed Hubanić	Chairman
Senad Herenda	Member	Tayyar Ozerdem	Member
Elma Oković - Badnjević	Member	Tarik Karić	Member
Senajid Zajmović	Member	Senaid Zajimović	Member
Denis Lasić	Member	Dragan Prusina	Member

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),

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:

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.

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.

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.

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.

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'.

<u>Other financial liabilities</u>

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.

(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:

	2015	**2014**
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).

(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:

31 December 2015	1 EUR = 1.95583 KM	1 USD = 1.790070 KM	1 KWD = 5.845585 KM
31 December 2014	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.

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.

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

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

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

	2015	2014
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
	10,744	**12,210**

6. INTEREST EXPENSES

	2015	2014
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
	3,183	**3,870**

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

7. FEE AND COMMISSION INCOME

	2015	2014
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
	1,067	**1,462**

8. OTHER (LOSSES) / GAINS, NET

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

9. PERSONNEL EXPENSES

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

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 2015.

10. OTHER ADMINISTRATIVE EXPENSES

	2015	2014
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
	1,935	**1,919**

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

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)**

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

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.

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

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**

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

16. PLACEMENTS WITH OTHER BANKS (CONTINUED)

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

	2015	2014
	% 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:

	2015	2014
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

	31 December 2015	31 December 2014
Short-term loans (including current portion of long-term loans):		
Corporate loans	30,155	33,119
Retail loans	726	717
Current portion of long-term loans	26,009	29,336
	56,890	*63,172*
Long-term loans (excluding current portion):		
Corporate loans	128,210	140,706
Retail loans	15,822	17,339
Current portion of long-term loans	(26,009)	(29,336)
	118,023	*128,709*
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)
	(23,137)	***(24,515)***
	150,290	**165,644**

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.

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

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.

	31 December 2015	31 December 2014
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
	1,486	**1,722**

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

	2015	2014
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:

	31 December 2015	31 December 2014
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:

	31 December 2015	31 December 2014
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
	174,913	**191,881**

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.

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

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**

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

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**

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

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

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).

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

24. DUE TO CLIENTS

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

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% t0 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.

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

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**

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

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.

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

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**

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

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:

	31 December 2015	31 December 2014
LOANS		
Individuals	9,297	8,357
Corporate	324	838
Total	**9,621**	**9,195**
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	2	5
Total	**9,621**	**9,198**
Current liabilities from managed funds activities (see Note 26)	**-**	**(3)**

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:

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

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.

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%).

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

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%**

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.

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

30. FINANCIAL INSTRUMENTS (CONTINUED)

c) Classes of financial instruments

	31 December 2015	31 December 2014
Financial assets		
Loans and receivables:	224,051	217,199
Cash and cash equivalents (including Obligatory reserves with CBBH)	*63,657*	*33,034*
Placements with other banks	*9,990*	*18,473*
Loans to customers, net	*150,290*	*165,644*
Other receivables	*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:		
Due to financial institutions	*20,888*	*23,480*
Due to the Government of the Federation of Bosnia and Herzegovina	*40,364*	*40,346*
Due to customers	*133,099*	*129,256*
Other liabilities	*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.

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

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

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.

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

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**

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

30. FINANCIAL INSTRUMENTS (CONTINUED)

h) Credit risk management (continued)

Credit exposure and collateral

	Credit risk exposure		
	Net exposure	Loan commitments / Guarantees	Fair value of collateral
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**

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

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.

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

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)	Equity securities listed on the Stock Exchange in Bosnia and Herzegovina: • Privredna banka Sarajevo d.d., Sarajevo – KM 1,831 thousand	Equity securities listed on the Stock Exchange in Bosnia and Herzegovina: • Privredna banka Sarajevo d.d., Sarajevo – KM 3,052 thousand	Level 1	Prices quoted on an active market.
	Equity securities listed on the Stock Exchange in Bosnia and Herzegovina without trading: • Registar vrijednosnih papira FBiH d.d. Sarajevo - KM 59 thousand BamCard d.d. Sarajevo – KM 3 thousand	Equity securities listed on the Stock Exchange in Bosnia and Herzegovina without trading: • Registar vrijednosnih papira FBiH d.d. Sarajevo - KM 59 thousand • BamCard d.d. Sarajevo – KM 3 thousand	Level 2	Discounted cash flow valuation technique, considering the last available rate on owned or similar equity securities as yield rate.
2) Financial assets held-to-maturity (see Note 19)	Debt instruments that are listed on the stock exchange in Bosnia and Herzegovina: Bonds issued from the Government Federation BiH – KM 397 thousand	Debt instruments that are listed on the stock exchange in Bosnia and Herzegovina: Bonds issued from the Government Federation BiH – KM 299 thousand	Level 2	Discounted cash flow valuation technique, considering the last available rate on owned or similar debt securities as yield rate.

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

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				
Loans and receivables:				
- Loans to customers, net	150,290	170,058	165,644	185,255
Financial payables:				
At amortized cost:				
- Due to customers and financial institutions	153,987	154,228	152,736	152,121

	Fair value hierarchy as of 31 December 2014			
	Level 1	Level 2	Level 3	Total
Financial asset				
Loans and receivables:				
- Loans to customers	-	170,058	-	170,058
	-	**170,058**	**-**	**170,058**
Financial payables:				
At amortized cost:				
- 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	BOR BANKA DD I SARAJEVO	Aida Alić
Director		Executive director for Accounting and assets