PRIVREDNA BANKA SARAJEVO D.D. SARAJEVO

Financial statements for the year ended
31 December 2016 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 Privredna banka Sarajevo 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

PRIVREDNA BANKA SARAJEVO DD
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SARAJEVO

Privredna banka Sarajevo d.d. Sarajevo
Obala Kulina bana 18
71000 Sarajevo
Bosnia and Herzegovina

30 March 2017

Deloitte d.o.o.
Zmaja od Bosne 12c
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Independent Auditor's Report

To the shareholders of Privredna banka Sarajevo d.d. Sarajevo:

We have audited the accompanying financial statements of Privredna banka Sarajevo d.d. Sarajevo (the "Bank"). set out on pages 3 to 48, which comprise of the statement of financial position as at 31 December 2016, 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 the Law on Accounting and Auditing and standards on auditing applicable in Federation of Bosnia and Herzegovina. 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 entity'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 financial statements give a true and fair view of the financial position of the Bank as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte d.o.o.

Sead Bahtanović, director and licensed auditor

Deloitte d.o.o. Zmaja od Bosne 12c 71000 Sarajevo ID: 4200047380000

Sabina Softić, partner and licensed auditor

Sarajevo, Bosnia and Herzegovina
30 March 2017

Income statement
for the year ended 31 December 2016
(all amounts are expressed in thousands of KM, unless otherwise stated)

	Notes	2016	2015
Interest and similar income	5	9,706	10,131
Interest expenses	6	(3,051)	(3,183)
Net interest income		**6,655**	**6,948**
Fee and commission income	7	2,234	1,067
Fee and commission expense		(646)	(288)
Net fee and commission income		**1,588**	**799**
Other (losses) / gains, net	8	(766)	(1,511)
Other operating income		475	708
Operating income		**7,952**	**6,924**
Personnel expenses	9	(3,722)	(2,482)
Depreciation and amortisation expenses	21	(879)	(672)
Other administrative expenses	10	(3,376)	(1,935)
Operating expenses		**(7,977)**	**(5,089)**
PROFIT BEFORE IMPAIRMENT LOSSES, PROVISIONS AND TAXATION		**(25)**	**1,835**
Impairment losses and provisions	11	1,899	(47)
Collected written-off receivables		792	613
PROFIT BEFORE TAXATION		**2,666**	**2,401**
Income tax expense	12	(345)	(269)
NET PROFIT		**2,321**	**2,132**
Earnings per share – basic and diluted (in KM)	13	**9,70**	**10.87**

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

Statement of comprehensive income
for the year ended 31 December 2016
(all amounts are expressed in thousands of KM, unless otherwise stated)

	Notes	2016	2015
Net profit		2,321	2,132
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	(4)	-
		(4)	*(5,144)*
TOTAL COMPREHENSIVE INCOME / (LOSS)		**2,317**	**(3,012)**

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

Balance sheet
as of 31 December 2016
(all amounts are expressed in thousands of KM, unless otherwise stated)

	Notes	31 December 2016	31 December 2015
ASSETS			
Cash and cash equivalents	14	39,562	30,950
Obligatory reserve with Central Bank of BiH	15	37,269	32,707
Placements with other banks	16	33,306	9,990
Loans to customers, net	17	202,479	150,290
Financial assets available-for-sale	18	438	1,893
Financial assets held-to-maturity	19	2,987	397
Other assets and receivables, net	20	1,177	198
Tangible and intangible assets	21	30,827	13,151
TOTAL ASSETS		**348,045**	**239,576**
LIABILITIES			
Due to financial institutions	22	13,856	20,888
Due to the Government of FBiH	23	35,483	40,364
Due to customers	24	236,241	133,099
Provisions	25	2,865	529
Other liabilities	26	3,290	75
Total liabilities		**291,735**	**194,955**
EQUITY			
Share capital	27	37,041	31,366
Share premium		6,125	-
Other reserves		10	10
Regulatory reserves		1,476	1,465
Revaluation reserve for property		7,086	7,200
Revaluation reserve for investments		(4)	-
Retained earnings		4,576	4,580
Total equity		**56,310**	**44,621**
TOTAL LIABILITIES AND EQUITY		**348,045**	**239,576**

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

Signed on behalf of the Bank on 30 March 2017:

Hamid Pršeš
Director

PRIVREDNA BANKA SARAJEVO DD
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SARAJEVO

Bedina Jusičić-Musa
Executive director for
Accounting and assets

Statement of cash flows
for the year ended 31 December 2016

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

	2016	2015
Operating activities		
Profit before taxation	2,666	2,401
Adjustments:		
Depreciation and amortization	879	672
Impairment losses and provisions, net	(1,899)	47
Non-recoverable losses on disposal of financial assets available-for-sale	-	1,628
Effect of changes in fair value of financial assets at FVTPL	1,214	-
Loss on disposal of equipment	(316)	-
Foreign exchange gains, net	(120)	(117)
Interest income recognized in the income statement	(9,706)	(10,744)
Interest expense recognized in the income statement	3,051	3,183
Changes in assets and liabilities:		
Decrease / (increase) in obligatory reserve with Central Bank of BiH	8,895	(11,663)
Net (increase) / decrease of placements with other banks	(22,805)	7,274
Net decrease in loans to customers, before allowance	2,989	16,636
Net decrease in other assets and receivables	3	33
Net (decrease) / increase liabilities to customers	(23,587)	3,843
Net decrease in other liabilities	(4,796)	(19)
	(43,532)	*13,174*
Interest paid	(3,051)	(3,183)
Interest received	9,304	10,768
Income tax paid	(357)	(506)
NET CASH (USED IN) / FROM OPERATING ACTIVITIES	**(37,636)**	**20,253**
Investing activities		
Purchases of tangible and intangible assets	(739)	(261)
Proceeds from sale of tangible and intangible assets	320	-
Cash acquired by bank acquisition	65,258	-
Purchases of financial assets held-to-maturity	(2,590)	(98)
NET CASH FROM / (USED IN) INVESTING ACTIVITIES	**62,249**	**(359)**
Financing activities		
Additional equity	-	2,200
Repayment of liabilities to financial institutions, net	(10,177)	(2,810)
(Decrease) / increase in liabilities to the Government of FBiH	(4,881)	18
Dividends paid	(943)	(342)
NET CASH USED IN FINANCING ACTIVITIES	**(16,001)**	**(934)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**8,612**	**18,960**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	**30,950**	**11,990**
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	**39,562**	**30,950**

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

Statement of changes in equity
for the year ended 31 December 2016

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

	Share capital	Share premium	Other reserves	Regulatory reserves	Revaluation reserve for properties	Revaluation reserve for investments	Retained earnings	Total
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 (Note 21)	-	-	-	-	(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**
Net profit	-	-	-	-	-	-	2,321	2,321
Other comprehensive income	-	-	-	-	-	(4)	-	(4)
Total comprehensive income	-	-	-	-	-	*(4)*	*2,321*	*2,317*
Effects of acquisition (Note 28)	5,675	6,125	-	11	-	-	(1,496)	10,315
Transfer from / to	-	-	-	-	(114)	-	114	-
Allocation of dividends	-	-	-	-	-	-	(943)	(943)
Balance as of 31 December 2016	**37,041**	**6,125**	**10**	**1,476**	**7,086**	**(4)**	**4,576**	**56,310**

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.

As at 30 September 2016, BOR banka d.d. Sarajevo acquired Privredna banka Sarajevo d.d. Sarajevo. Municipality Court in Sarajevo issued the Decision no. 065-0-Reg-16-004985, dated 21 December 2016, which registered the status change, and the Decision no. 065-0-Reg-16-004986, dated 21 December 2016, based on which Privredna banka Sarajevo d.d. Sarajevo was deleted from the court registry due to acquisition. Based on the Decision of the Municipality Court in Sarajevo on data change, no. 065-0-Reg-16-005588, dated 24 February 2017, data on change of Bank's name were recorded (from BOR banka d.d. in Privredna banka Sarajevo d.d.).

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 2016, the Bank had 137 employees (31 December 2015: 64 employees).

Supervisory Board

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

Management Board

Until 17 November 2016		***Since 17 November 2016***	
Hamid Pršeš	Director	Hamid Pršeš	Director
Muhamed Šehbajraktarević	Executive director for support	Edin Kreštalica	Executive director for corporate sector
Bedina Jusičić Musa	Executive director for risk management	Kemal Džabija	Executive director for retail sector
Aida Alić	Executive director for accounting and assets	Bedina Jusičić Musa	Executive director for management
Edin Kreštalica	Executive director for sales		

Audit Committee

Muhamed Hubanić	Chairman
Tayyar Ozerdem	Member
Tarik Karić	Member
Senaid Zajimović	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:

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016),
- 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 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 1 "Presentation of Financial Statements" - Disclosure Initiative (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" -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 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 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 15 "Revenue from Contracts with Customers" and further amendments (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 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- 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 and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

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 for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).

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.

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:

- 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.

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

Basis of presentation (continued)

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.

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.

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

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 33. 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.

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 useful lives were as follows:

	2016
Buildings	57 to 77 years
Computers	3 years
Vehicles	7 years
Furniture and other office equipment	5 to 10 years

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 2016	1 EUR = KM 1.95583	1 USD = KM 1.855450	1 KWD = KM 6.006354	1 CHF = KM 1.821240
31 December 2015	1 EUR = KM 1.95583	1 USD = KM 1.790070	1 KWD = KM 5.845585	-

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.

In 2016, shareholders' equity was increased based on status change, i.e. acquisition of Privredna banka Sarajevo d.d. Sarajevo. Due to the status change, 51,592 ordinary shares and 76,936 preference shares were issued, with nominal value of KM 110.

During 2016 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 32, 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

	2016	**2015**
Interest on corporate loans	8,468	8,949
Interest on retail loans	1,210	1,162
Interest on financial assets held-to-maturity	25	18
Interest on placements with other banks	3	2
	9,706	**10,131**

6. INTEREST EXPENSES

	2016	**2015**
Interest on deposits from companies	1,241	1,589
Interest on deposits from individuals	791	520
Interest on the Government of FBiH funds	791	798
Interest on borrowings from financial institutions	148	276
Other interest expenses	80	-
	3,051	**3,183**

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

7. FEE AND COMMISSION INCOME

	2016	2015
Fees from payment transactions	1,439	464
Fees from off-balance sheet transactions	435	461
Fees from conversion transactions	143	36
Fees from managed funds	85	99
Other fee and commission income	132	7
	2,234	**1,067**

8. OTHER (LOSSES) / GAINS, NET

	2016	2015
Impairment of shares of Privredna banka Sarajevo d.d. Sarajevo (Note 18)	(1,214)	(1,628)
Gains on disposal of fixed assets	316	-
Foreign exchange gains, net	120	117
Other gains	12	-
	(766)	**(1,511)**

9. PERSONNEL EXPENSES

	2016	2015
Net salaries	1,720	1,217
Taxes and contributions	1,319	750
Meal allowance and transport	280	237
Other	403	278
	3,722	**2,482**

The average number of employees of the Bank was 87 during the year ended 31 December 2016, and 65 during the year ended 31 December 2015.

10. OTHER ADMINISTRATIVE EXPENSES

	2016	2015
Service costs	1,357	402
Maintenance	357	204
Memberships	217	309
Advertising and entertainment	169	198
Energy costs	156	121
Taxes and contributions	132	105
Telecommunication	128	79
Fees to the members of Supervisory Board and Audit Committee	108	84
Material costs	84	72
Insurance	57	37
Other costs	611	324
	3,376	**1,935**

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

11. IMPAIRMENT LOSSES AND PROVISIONS

	Notes	2016	2015
(Release of) / impairment losses on placements with other banks	16	(103)	1,209
Impairment losses on loans, net	17	(1,496)	(971)
Additional provisions for commitments and contingencies, net	25	(358)	(191)
Allowance for impairment losses on investments	18	3	-
Allowance for impairment losses on other assets and receivables	20	55	-
		(1,899)	**47**

12. INCOME TAX EXPENSE

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

	2016	2015
Current income tax	329	269
Deferred income tax	16	-
	345	**269**

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

	2016	2015
Profit before income tax	**2,666**	**2,401**
Tax calculated at rate of 10%	267	240
Effects of non-deductible expenses	62	29
Current income tax	**329**	**269**
Effective tax rate	**12.34%**	**11.20%**

13. EARNINGS PER SHARE

	2016	2015
Net profit	2,321	2,132
Less: preference dividends	(169)	(342)
	2,152	***1,790***
Weighted average number of ordinary shares	221,784	164,699
Basic earnings / (loss) per share (in KM)	**9.70**	**10.87**

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

14. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Current account with CBBH	33,896	30,396
Cash at hand in foreign currencies	2,556	76
Cash at hand in domestic currency	1,791	351
Cash at ATMs	1,319	127
	39,562	**30,950**

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 2016	31 December 2015
Specific reserve by Law on banks, article 42 a	13,363	24,073
Obligatory reserve with CBBH	23,906	8,634
	37,269	**32,707**

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.

The largest amount is related to the Ministry of Finance of FBiH in the amount of KM 22,791 thousand, Municipality Stari Grad in the amount of KM 1,851 thousand, and Municipality Court in Bugojno in the amount of KM 624 thousand, and 50% of these funds amounted to KM 13,363 thousand as of 31 December 2016.

Governing Council of the Central Bank of Bosnia and Herzegovina (CBBiH) adopted the Decision on determining and maintaining obligatory reserves and determining CBBiH fee on the amount of reserve ("Official Gazette of BiH", no. 30/16).

Based on this Decision, the basis for calculation of obligatory reserve comprises deposits and borrowed assets, regardless of the currency. The Decision determines a unified obligatory reserve rate of 10% that CBBiH applies on the basis for calculation of obligatory reserve.

In addition, Decision determines that, for the amount of assets over the obligatory reserve, CBBiH calculates fee at the rate equal to 50% of the rate applied by the European Central Bank (ECB) on commercial banks' deposits.

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

16. PLACEMENTS WITH OTHER BANKS

	31 December 2016	31 December 2015
Loans to banks:		
Banka Srpske a.d. Banja Luka (Balkan Investment Bank a.d.)	-	**905**
A vista deposits in foreign currencies:		
Unicredit bank Austria, Vienna	12,638	-
Raiffeisen Zentralbank AG, Austria	10,192	1,419
Zagrebačka banka d.d., Croatia	4,132	696
Bawag P.S.K. Vienna, Austria	2,222	-
UniCredit bank S.p.A Milano, Italy	1,430	-
VIPA d.d. Ljubljana, Slovenia	1,083	-
Zveza banka Klagenfurt, Austria	70	-
Nordea bank AB Stocholm, Sweden	51	-
Commonwealth bank Sydney, Australia	23	-
DNB Norbank ASA Oslo	5	-
Deutsche Bank AG, Germany	-	2,311
National Bank of Kuwait	-	1,948
KBC Brussels, Belgium	-	877
Swedbank AB, Sweden	-	476
Nova Ljubljanska banka d.d., Slovenia	-	399
Svenska Handelsbanken AB, Sweden	-	74
	31,846	***8,200***
A vista deposits in domestic currency:		
Bobar Banka a.d. Bijeljina	4,250	2,500
Sparkasse Bank d.d. Sarajevo	154	9
	4,404	***2,509***
Term deposits in foreign currencies:		
Raiffeisen Bank International AG, Austria	928	895
Union banka of Switzerland, Switzerland	456	-
	1,384	***895***
Term deposits in domestic currency		
Sparkasse Bank d.d. Sarajevo	***50***	***25***
Total placements before allowance for impairment losses	**37,684**	**12,534**
Less: Allowance for impairment losses		
Bobar banka a.d. Bijeljina	(4,250)	(2,500)
Zagrebačka banka d.d., Croatia	(83)	-
Banka Srpske a.d. Banja Luka (Balkan Investment Bank a.d.)	(22)	-
VIPA d.d. Ljubljana, Slovenia	(18)	(18)
Sparkasse bank d.d. Sarajevo	(4)	-
Zveza banka Klagenfurt, Austria	(1)	-
Raiffeisen Bank International AG, Austria	-	(18)
Nova Ljubljanska banka d.d., Slovenia	-	(8)
	(4,378)	***(2,544)***
	33,306	**9,990**

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

16. PLACEMENTS WITH OTHER BANKS (CONTINUED)

Expected to be recovered:		
- no more than twelve months after the reporting period	37,228	12,534
- more than twelve months after the reporting period	456	-
Less: Allowance for impairment losses	(4,378)	(2,544)
	33,306	**9,990**

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

	2016	**2015**
	% p.a.	**% p.a.**
Placements in EUR	-0.10 – 0.50	0.00 – 0.01
Placements in USD	0.20 – 0.40	0.00 – 0.01
Placements in KWD	0.00 – 0.00	0.00 – 0.00
Placements in SEK	0.30 – 0.50	-0.51 – 0.00

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

	2016	**2015**
Balance at beginning of the year	**2,544**	**1,335**
Effects of acquisition (Note 28)	3,187	-
(Decrease) / increase, net (Note 11)	(103)	1,209
Write-offs	(1,250)	-
Balance at end of the year	**4,378**	**2,544**

17. LOANS TO CUSTOMERS, NET

	31 December 2016	**31 December 2015**
Short-term loans (including current portion of long-term loans):		
Corporate loans	58,746	30,155
Retail loans	1,623	726
Current portion of long-term loans	86,542	26,009
	146,911	*56,890*
Long-term loans (excluding current portion):		
Corporate loans	173,268	128,210
Retail loans	29,133	15,822
Current portion of long-term loans	(86,542)	(26,009)
	115,859	*118,023*
Gross loan receivables	***262,770***	***174,913***
Less: Long-term accrued income	(1,254)	(1,486)
Less: Allowance for impairment losses based on individual assessment	(52,222)	(18,412)
Less: Allowance for impairment losses based on group assessment	(6,815)	(4,725)
	(59,037)	***(23,137)***
	202,479	**150,290**

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 2016	31 December 2015
Ministry of Finance of the Federation of Bosnia and Herzegovina	1,013	1,064
Privredna banka Sarajevo d.d. Sarajevo	239	412
Accrued income – Fenix d.o.o. Kladanj	2	10
	1,254	**1,486**

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

	2016	2015
Balance at beginning of the year	**23,137**	**24,515**
Effects of acquisition (Note 28)	45,638	-
Decrease, net (Note 11)	(1,496)	(971)
Write-offs	(8,136)	(742)
Forex	(106)	335
Balance at end of the year	**59,037**	**23,137**

Weighted average interest rate can be presented as follows:

	31 December 2016	31 December 2015
Corporate	2.00% - 11.00%	2.00% - 10.00%
Retail	2.85% - 13.99%	2.85% - 10.90%

Analysis of gross loan receivables by industry:

	31 December 2016	31 December 2015
Trade	58,177	41,718
Individuals	30,763	16,512
Services, finance sector, sport and tourism	24,266	11,912
Construction	22,555	8,228
Agricultural, forestry, mining and energy	15,081	57,225
Transportation and telecommunication	4,412	9,577
Administration and other public institutions	629	4,120
Other	105,024	25,621
Interest	1,863	-
	262,770	**174,913**

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 2016 and 31 December 2015.

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

18. FINANCIAL ASSETS AVAILABLE-FOR-SALE

	Industry	% of ownership	31 December 2016	31 December 2015
Debt securities:				
Securities' Register of FBiH d.d. Sarajevo	Capital market	2.75	59	59
JUBMES Banka a.d. Belgrade, Serbia	Banking	0.29	55	-
Bosna Reosiguranje d.d. Sarajevo	Insurance	0.49	32	-
Bamcard d.d. Sarajevo	Capital market	0.10	3	3
Privredna banka Sarajevo d.d. Sarajevo	Banking	9.09	-	1,831
			149	***1,893***
Equity securities:				
Bonds of FBiH Government	Government	-	292	-
			292	***-***
Less: Impairment, net			(3)	-
			438	**1,893**

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

	2016	2015
Balance at beginning of the year	**1,893**	**3,114**
Effects of acquisition (Note 28)	381	-
Booking out of investment in Privredna banka Sarajevo d.d., due to acquisition	(615)	-
Loss on disposal of shares of Privredna banka Sarajevo d.d. recognized in profit or loss (Note 8)	(1,214)	-
Release of impairment losses (Note 11)	(3)	-
Unrealized gain on fairvalue adjustment	(4)	(1,221)
Balance at end of the year	**438**	**1,893**

19. FINANCIAL ASSETS HELD-TO-MATURITY

Issuer	Maturity date	Annual interest	31 December 2016.	31 December 2015.
Ministry of Finance of FBiH	28 December 2019	2.99%	2,005	-
Ministry of Finance of FBiH	27 June 2017	6.10%	300	299
Ministry of Finance of FBiH	21 December 2021	3.42%	584	-
Ministry of Finance of FBiH	22 November 2022	4.20%	98	98
			2,987	**397**

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

20. OTHER ASSETS AND RECEIVABLES

	31 December 2016	31 December 2015
Precious metals	468	-
Receivables from FBiH Government for paid guarantee	368	-
Fees receivables	328	-
Prepaid expenses	183	84
Prepaid income tax	12	88
Other receivables	487	26
	1,846	**198**
Less: Impairment, net	(669)	-
	1,177	**198**

Changes in impairment of other assets and receivables can be presented as follows:

	2016	2015
Balance at the beginning of the year	-	-
Effects of acquisition (Note 28)	1,953	-
Increase, net (Note 11)	55	-
Booking of receivables on court fees in off-balance	(162)	-
Write-offs	(1,177)	-
Balance at the end of the year	**669**	-

(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 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**
Effects of acquisition (Note 28)	355	32,857	4,404	1,877	17	39,510
Additions	-	-	-	-	739	739
Transfer (from) / to	-	-	438	308	(746)	-
Disposals	-	(4)	(1,509)	-	-	(1,513)
At 31 December 2016	**715**	**44,683**	**6,110**	**3,472**	**47**	**55,027**
ACCUMULATED DEPRECIATION						
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**
Effects of acquisition (Note 28)	-	16,074	3,928	1,688	-	21,690
Depreciation and amortization charge	-	300	341	238	-	879
Disposals	-	-	(1,497)	-	-	(1,497)
Corrections	-	-	(12)	-	-	(1,497)
At 31 December 2016	-	**16,452**	**4,707**	**3,041**	-	**24,200**
NET BOOK VALUE						
As at 31 December 2016	**715**	**28,231**	**1,403**	**431**	**47**	**30,827**
As at 31 December 2015	**360**	**11,752**	**830**	**172**	**37**	**13,151**

(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 was not performed as at 31 December 2016 in accordance with Bank's policy.

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 2016	31 December 2015
Ministry of Finance of the Federation of Bosnia and Herzegovina (Sustainable Development Foundation – "ODRAZ")	12,648	18,941
Landesversicherungsanstalt Niederbayern-Oberpfalz, Germany	1,208	-
Kuwait Fund for Arabian Economic Development ("KFAED")	-	1,947
	13,856	**20,888**
Maturity analysis:		
Within one year	2,925	5,410
In the second year	2,787	3,205
Third to fifth year	6,229	8,497
After five years	1,915	3,776
	13,856	**20,888**

Ministry of Finance of the Federation of Bosnia and Herzegovina (Sustainable Development Foundation – "ODRAZ")

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 2016, the Bank approved and implemented 42 projects with the total value of KM 43,602 thousand, and all funds were used in accordance with their purpose.

Landesversicherungsanstalt Niederbayern-Oberpfalz, Germany

On 5 September 2002, the Bank signed an agreement with Landesversicherungsanstalt Niederbayern-Oberpfalz, Germany ("LVA"), based on which LVA assumes Bank's liabilities toward German pension institutions for April and May 1992 in the total amount of EUR 2,315,311. The Bank should refund the amount before 31 December 2020. Principal repaymant started on 1 January 2006, and will be completed through 30 equal semi-annual instalments in the amount of EUR 77,177 (repayment as at 1 January and 1 July each year). LVA calculates annual interest rate on this debt in the amount equal to six-month EURIBOR.

22. DUE TO FINANCIAL INSTITUTIONS (CONTINUED)

Kuwait Fund for Arabian Economic Development ("KFAED")

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 was due in January 2016, and the Bank completed 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.

The final annuity was due in January 2016, and the Bank completed the repayment of this loan commitment.

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

In November 2016, the Bank signed Annex 2 to the Agreement for fund management of Japanese Grant for Federation of Bosnia and Herzegovina (PVF), dated 18 August 2005. The annex approved use of free monetary funds from Japanese grants, which were placed in three loans with counter value of KM 8,100 thousand.

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

24. DUE TO CLIENTS

	31 December 2016	31 December 2015
Demand deposits:		
Individuals:		
In domestic currency	38,124	7,170
In foreign currencies	31,070	1,255
	69,194	*8,425*
Companies:		
In domestic currency	63,327	65,612
In foreign currencies	6,046	4,693
	69,373	*70,305*
	138,567	***78,730***
Term deposits:		
Individuals:		
In domestic currency	20,596	6,857
In foreign currencies	41,794	9,088
	62,390	*15,945*
Companies:		
In domestic currency	29,423	33,534
In foreign currencies	5,861	4,890
	35,284	*38,424*
	97,674	***54,369***
	236,241	**133,099**

During the year ended 31 December 2016, interest rates were as follows:

- a vista deposits in KM and in foreign currencies - 0.00% p.a. to 0.13% p.a.;

- short-term deposits – in the range 0.3% p.a. to 2.45% p.a.;

- long-term deposits – in the range 1.20% p.a. to 5.5% p.a..

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

25. PROVISIONS

	Commitments and contingencies	Employee benefits	Court proceedings	Other provisions	Total
Balance as of 1 January 2015	**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**
Effects of acquisition (Note 28)	128	474	3,430	44	4,076
(Release of) / additional provisions recognized (Note 11)	85	(412)	(31)	-	(358)
Decrease due to payment	-	-	(1,382)	-	(1,382)
Balance as of 31 December 2016	**635**	**127**	**2,059**	**44**	**2,865**

Contingent liabilities (Off-Balance sheet) as of 31 December 2016 were as follows:

	31 December 2016	31 December 2015
Performance guarantes	14,188	11,327
Payment guarantees	5,935	4,099
Unused irrevocable loans	5,739	4,346
Bidding guarantees	-	176
	25,862	**19,948**

26. OTHER LIABILITIES

	31 December 2016	31 December 2015
Liabilities for unallocated proceeds	791	-
Liabilities for paid funds for loans and cards	614	-
Transfer accounts for forced collection	370	-
Liabilities toward suppliers	223	54
Liabilities for non-reconciled ATM balance	164	-
Liabilities for managed funds (Note 30)	163	-
Liabilities for retirements earned abroad	103	-
Liabilities for client proceeds	99	-
Liabilities for unpaid pensions from previous periods (1992)	71	-
Income tax liability	19	-
Other	673	21
	3,290	**75**

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

27. SHARE CAPITAL

Share capital as of 31 December 2016 and 2015 was as follows:

	31. December 2016			31. December 2015		
	KM '000	Number of shares	%	KM '000	Number of shares	%
Ordinary shares						
Fabrika duhana Sarajevo	3,383	30,752	11.84%	1,749	15,900	8.74%
Pobjeda – Rudet d.d. Goražde	2,806	25,509	9.82%	2,602	23,654	13.00%
Hamid Pršeš	2,148	19,526	7.52%	1,648	14,981	8.23%
Unis Fagas doo Sarajevo	1,788	16,257	6.26%	1,139	10,356	5.69%
Zijad Deljo	1,420	12,907	4.97%	1,180	10,729	5.89%
Halil Oković	1,275	11,594	4.46%	829	7,540	4.14%
Hasan Đozo	1,246	11,328	4.36%	1,108	10,070	5.53%
Fond "Bošnjaci" Sarajevo	935	8,496	3.27%	935	8,496	4.67%
Denge Yatirim Holding, Turska	882	8,020	3.09%	882	8,020	4.41%
AME doo Breza	849	7,721	2.97%	743	6,756	3.71%
Others	11,846	107,692	41.45%	7,206	65,512	35.99%
	28,578	**259,802**	**100.00%**	**20,021**	**182,014**	**100.00%**
Preference shares						
ZIF CROBIH FOND d.d. Mostar	1,364	12,400	16.12%	1,364	12,400	12.02%
Enver Pršeš	1,133	10,299	13.39%	1,217	11,065	10.73%
Hamid Pršeš	1,041	9,462	12.30%	1,263	11,482	11.13%
Zijad Deljo	967	8,790	11.43%	1,054	9,580	9.29%
Hasan Đozo	789	7,175	9.32%	-	-	-
Denge Yatirim Holding, Turska	-	-	-	789	7,175	6.96%
Others	3,169	28,810	37.45%	5,658	51,430	49.87%
	8,463	**76,936**	**100.00%**	**11,345**	**103,132**	**100.00%**
	37,041	**336,738**	**100.00%**	**31,366**	**285,146**	**100.00%**

As at 31 December 2016 and 2015, 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 2016, a dividend of KM 2.20 per share - total dividend KM 169 thousand was paid to holders of preference shares (during 2015: KM 3.32 per share - total dividend KM 342 thousand).

On meetings held on 21 April 2016 and 8 June 2016, the General Assembly adopted a decision on dividend payment on preference cumulative shares, preference non-cumulative shares and ordinary shares in the total amount of KM 943 thousand, and it was paid upon completion of AQR review, after booking additional requirements for impairment, i.e. regulatory reserves for credit losses.

With the aim of strengthening Bank's equity and adjusting credit concentrations in determined limits, Privredna banka Sarajevo conducted activities for conversion of preference cumulative shares into ordinary shares. On 22 July 2016, Privredna banka Sarajevo received Information from the Securities Registry on deletion of securities – preference cumulative shares and registration of new securities – ordinary shares. After the conversion of preference into ordinary (management) shares, the number of shares and shareholders' equity of Privredna banka Sarajevo remained the same, equity in the amount of KM 31,366,060 is allocated to 208,210 ordinary shares with nominal value of KM 110 per share. Share conversion increased Privredna banka Sarajevo's core capital for KM 2,881 thousand and decreased supplementary capital for same amount.

28. BUSINESS COMBINATIONS WITH PRIVREDNA BANKA SARAJEVO D.D. SARAJEVO

In January 2016, BOR banka d.d. Sarajevo sent the letter of intent to Privredna banka d.d. Sarajevo for acquisition with the founding basis. After acceptance of acquisition project, the process of status change was initiated, and the Coordination Body for acquisition process was formed.

On 7 June 2016, the Banking Agency of Federation of Bosnia and Herzegovina granted pre-approval for the status change, and on 8 June 2016 the meeting of the General Assembly of BOR banka and the General Assembly of Privredna banka d.d. Sarajevo was held, on which the shareholders adopted the decision on the intended reorganization by merger of Privredna banka d.d. Sarajevo with BOR banka d.d. Sarajevo, and the Reorganization plan "Study on Economic Adequacy of Merger of Privredna banka d.d. Sarajevo and BOR banka d.d. Sarajevo".

Based on Bank's request dated 15 June 2016, the Securities Commission of Federation of Bosnia and Herzegovina adopted the Decision no. 03/I-19-215/16, dated 9 September 2016, approving the merger status change. And on 28 September 2016 an Additional decision in the same case, approving the acquisition of own shares in the merger process. When adopting the Additional decision, the Securities Commission of Federation of Bosnia and Herzegovina failed to create a Registration paper as an integral part of the Decision, which resulted in inability to register the status change in the competent Municipality Court.

Due to Securities Commission of Federation of Bosnia and Herzegovina's position on own shares, which BOR banka had in Privredna banka Sarajevo d.d. Sarajevo and lengthy procedure, and with the aim of completing the status change, it was decided that the Bank will resign its own shares, after which the Municipality Court in Sarajevo adopted the Decision no. 065-0-Reg-16-004985, dated 21 December 2016, which registered the status change, and the Decision no. 065-0-Reg-16-004986, dated 21 December 2016, based on which Privredna banka Sarajevo d.d. Sarajevo was deleted from the court registry due to acquisition.

Upon receiving the Decision of the Municipality Court in Sarajevo, the changes were registered with the Securities Commission of the Federation of Bosnia and Herzegovina and the Securities Registry of Federation of Bosnia and Herzegovina.

As at 30 September 2016, Privredna banka Sarajevo d.d. Sarajevo was merged with BOR banka d.d. Sarajevo. Based on the selected merger method, the following capital items of former Privredna banka Sarajevo d.d. Sarajevo were included in the successor Bank:

- Increase of share capital (by applying the share swap ratio) in the amount of KM 5,675 thousand,
- Other reserves – share premium in the amount of KM 6,125 thousand,
- Reserves for credit losses formed from profit – KM 11 thousand, and
- Loss as at the reporting date 30 September 2016 in the amount of KM 1,496 thousand.

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

28. BUSINESS COMBINATIONS WITH PRIVREDNA BANKA SARAJEVO D.D. SARAJEVO (CONTINUED)

Balance sheet of Privredna banka d.d. Sarajevo as at 30 September 2016 can be presented as follows:

	Privredna banka Sarajevo d.d.
Cash and accounts with banks	65,258
Obligatory reserve with the Central Bank of Bosnia and Herzegovina	13,457
Placements in other banks, net	514
Loans to customers, net	53,280
Financial assets available-for-sale	381
Other assets and receivables, net	1,009
Tangible and intangible assets	17,820
Deferred tax assets	16
	151,735
Share capital	16,880
Share premium	6
Revaluation reserve for properties	7,643
Revaluation reserve for investments	(218)
Regulatory reserves for credit losses	11
Accumulated losses	(13,392)
Due to clients	126,729
Due to other banks and financial institutions	3,371
Provisions	4,076
Other liabilities	6,629
TOTAL EQUITY AND LIABILITIES	**151,735**

29. RELATED PARTY TRANSACTIONS

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

	2016		**2015**	
	Income	**Expense**	**Income**	**Expense**
Shareholders	343	235	410	299
Member of Management Board and their family members	10	3	21	-
Member of Supervisory Board and their family members	21	52	10	8
	374	**290**	**441**	**307**

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

29. RELATED PARTY TRANSACTIONS (CONTINUED)

As of 31 December 2016, balances resulting from transactions with related parties include:

	31 December 2016		31 December 2015	
	Receivables	**Liabilities**	**Receivables**	**Liabilities**
Shareholders	4,606	9,059	3,567	6,018
Member of Supervisory Board and their family members	191	232	275	254
Member of Management Board and their family members	139	31	1,479	22
Privredna banka Sarajevo d.d. Sarajevo	-	-	1,831	-
	4,936	**9,322**	**7,152**	**6,294**

Management Board and Supervisory Board remuneration

The remuneration of the members of Management Board and Supervisory Board during the year ended 31 December 2016 was as follows:

	2016	2015
Gross salaries of the members of Management Board	446	385
Other benefits of the members of Management Board	36	50
Fees to the members of Supervisory Board	61	59
	543	**494**

30. 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 2016	31 December 2015
LOANS		
Individuals	18,112	9,297
Corporate	947	324
Total	**19,059**	**9,621**
LIABILITIES		
Government of Federation of Bosnia and Herzegovina	17,673	9,027
Government of Bosnia and Herzegovina	500	500
Construction Institute of Canton Sarajevo	87	92
International Management Group	-	-
Canton Sarajevo	-	2
Managed loans of PBS	962	-
Total	**19,222**	**9,621**
Current liabilities from managed funds activities (Note 26)	**(163)**	**-**

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

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

31. 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 2016	31 December 2015
Debt	285,580	194,351
Equity	54,834	43,156
Net debt to capital ratio	**5.21**	**4.50**

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, share premium, other reserves, revaluation reserves and retained earnings.

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%. After the acquisition of Privredna banka Sarajevo d.d. Sarajevo, the regulatory requirement for capital adequacy at the minimum of 14% is effective.

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 2016 and 2015 the Bank complied with all of the externally imposed capital requirements to which it was subject. As of 31 December 2016 the adequacy of the Bank's capital amounts to 15.29% (2015: 20.03%).

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

31. FINANCIAL INSTRUMENTS (CONTINUED)

a) Capital risk management (continued)

	31 December 2016	31 December 2015
Core capital – Tier 1 capital		
Ordinary shares	37,041	28,485
Share premium	6,125	-
Retained earnings	3,640	2,440
Accumulated loss	(1,496)	-
Negative revaluation reserves	(3)	-
Less: Intangible assets	(478)	(173)
Total Core capital	**44,829**	**30,752**
Supplemental capital – Tier 2 capital		
Preference shares	-	2,881
General regulatory reserves under FBA rules	2,905	2,209
Net profit for the current year	-	-
Positive revaluation reserves	7,086	7,201
Total Supplemental capital	**9,991**	**12,291**
Deductions from capital		
Investments that exceed 5% of basic capital	-	(1,007)
Shortfall in regulatory reserves	(19,218)	(8,479)
Net capital	**35,602**	**33,557**
Risk Weighted Assets (unaudited)	211,762	155,508
Weighted Operational Risk (unaudited)	21,025	12,012
Total weighted risk	**232,787**	**167,520**
Capital adequacy (%)	**15.29**	**20.03**

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 2016:

- allowed credit exposure without any collateral, up to 5% of Core capital – breach on 3 clients / groups;

The Bank expects to eliminate this breach of limits on credit risk concentration in the following period on two groups of related parties (Unimedia d.o.o. Sarajevo and IKT d.o.o. Sarajevo), where the deadline for adjustment on FBA order is 30 june 2017, while for the client BOBAR banka d.d. in liquidation Bijeljina legal activities are in the process.

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

31. FINANCIAL INSTRUMENTS (CONTINUED)

a) Capital risk management (continued)

Capital adjustment plan (continued)

As of 31 December 2016, the ratio "tangible assets / Core capital" amounted to 67.7%, and the increase resulted from acquisition of Privredna banka Sarajevo d.d. Sarajevo. The Bank prepared the Plan for eliminating non-compliance of investments in fixed assets in December 2016.

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.

c) Categories of financial instruments

	31 December 2016	31 December 2015
Financial assets		
Loans and receivables:	313,571	224,051
Cash and cash equivalents (including Obligatory reserves with CBBH)	*76,831*	*63,657*
Placements with other banks	*33,306*	*9,990*
Loans to customers, net	*202,479*	*150,290*
Other receivables	*955*	*114*
Financial assets available-for-sale	438	1,893
Financial assets held-to-maturity	2,987	397
	316,996	**226,341**
Financial liabilities		
At amortised cost:		
Due to financial institutions	*13,856*	*20,888*
Due to the Government of the Federation of Bosnia and Herzegovina	*35,483*	*40,364*
Due to customers	*236,241*	*133,099*
Other liabilities	*3,056*	*75*
	288,636	**194,426**

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)

31. 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	CHF	KWD	Other currencies	Total
As of 31 December 2016							
ASSETS							
Cash and cash equivalents	36,994	1,511	229	525	-	303	39,562
Obligatory reserve with CBBH	37,269	-	-	-	-	-	37,269
Placements with other banks	200	26,044	3,012	3,633	-	415	33,306
Loans to customers, net	126,541	74,200	682	-	1,056	-	202,479
Financial assets available-for-sale	383	-	-	-	-	55	438
Financial assets held-to-maturity	2,889	98	-	-	-	-	2,987
Other receivables	948	7	-	-	-	-	955
Total	**205,224**	**101,860**	**3,923**	**4,160**	**1,056**	**773**	**316,996**
LIABILITIES							
Due to financial institutions	9	13,847	-	-	-	-	13,856
Due to the FBiH Government	35,483	-	-	-	-	-	35,483
Due to customers	139,497	87,864	4,011	4,136	-	733	236,241
Other liabilities	2,057	972	7	2	-	18	3,056
	177,046	**102,683**	**4,018**	**4,138**	**-**	**751**	**288,636**
As of 31 December 2015							
Total Monetary assets	**168,568**	**51,090**	**2,955**	**-**	**3,160**	**568**	**226,341**
Total Monetary liabilities	**142,262**	**47,977**	**2,258**	**-**	**1,929**	**-**	**194,426**

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, CHF and KWD.

The following table details the Bank's sensitivity to a 10% increase and decrease in KM against USD, CHF 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, CHF and KWD. A positive number below indicates an increase in profit where KM strengthens 10% against USD, CHF and KWD. For a 10% weakening of KM against USD, CHF and KWD, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	USD impact		**CHF impact**	**KWD impact**	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2016**	**31 December 2015**
Profit / (loss)	8	70	2	116	123

31. 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 2016 would increase / decrease by KM 234 thousand (2015: increase / decrease by KM 168 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)

31. 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 2016						
Cash and accounts in banks	39,562	39,562	-	-	-	39,562
Obligatory reserve with CBBH	37,269	37,269	-	-	-	37,269
Placements with other banks	37,684	27,017	10,667	(4,250)	(128)	33,306
Loans to customers, net	261,516	1,605	259,911	(52,222)	(6,815)	202,479
Financial assets available-for-sale	441	347	94	-	(3)	438
Financial assets held-to-maturity	2,987	2,987	-	-	-	2,987
Other receivables	1,621	480	1,141	(635)	(31)	955
	381,080	**109,267**	**271,813**	**(57,107)**	**(6,977)**	**316,996**
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**

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

31. 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 2016			
Cash and cash equivalents	39,562	-	-
Obligatory reserve with CBBH	37,269	-	-
Placements with other banks	33,306	-	-
Loans to customers, net	202,479	25,862	520,190
Financial assets available-for-sale	438	-	-
Financial assets held-to-maturity	2,987	-	-
Other receivables	955	-	-
	316,996	**25,862**	**520,190**
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**

Fair value of the collaterals

	31 December 2016	**31 December 2015**
Real estates and movable properties	506,658	320,344
Deposits	2,226	3,980
Other	11,306	40,636
Total	**520,190**	**364,960**

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 2016							
Corporate loans	231,941	151,379	3,007	716	1,048	1,100	74,691
Retail loans	30,829	27,815	118	64	39	78	2,715
Total	**262,770**	**179,194**	**3,125**	**780**	**1,087**	**1,178**	**77,406**
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**

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

31. 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 2016							
Non-interest bearing	-	708	-	-	-	438	1,146
Fixed interest rate instruments	7.32%	33,562	22,255	27,129	70,152	44,558	197,656
Variable interest rate instruments	8.40%	53,971	10,219	7,778	24,817	6,806	103,591
		88,241	**32,474**	**34,907**	**94,969**	**51,802**	**302,393**
31 December 2015							
Non-interest bearing	-	114	-	-	-	1,893	2,007
Fixed interest rate instruments	4.37%	88,962	17,703	16,595	46,623	25,918	195,801
Variable interest rate instruments	4.35%	12,800	14,521	-	-	-	27,321
		101,876	**32,224**	**16,595**	**46,623**	**27,811**	**225,129**

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 2016							
Non-interest bearing	-	91,969	323	115	292	-	92,699
Fixed interest rate instruments	2.50%	27,902	11,750	4,868	27,102	35,559	107,181
Variable interest rate instruments	2.30%	21,274	7,962	19,361	29,323	13,664	91,584
		141,145	**20,035**	**24,344**	**56,717**	**49,223**	**291,464**
31 December 2015							
Non-interest bearing	-	75	-	-	-	-	75
Fixed interest rate instruments	1.70%	67,505	7,248	23,947	21,155	39,657	159,512
Variable interest rate instruments	1.01%	10,650	8,882	-	-	-	19,532
		78,230	**16,130**	**23,947**	**21,155**	**39,657**	**179,119**

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)

32. FAIR VALUE MEASUREMENT

32.1 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 2016	**31 December 2015**		
1) Financial assets available-for-sale (see Note 18)	Equity securities listed on the Stock Exchange in Bosnia and Herzegovina: • Bosna Reosiguranje d.d., Sarajevo – KM 32 thousand Equity securities listed on stock exchange in other countries: • JUBMES BANKA A.D. Belgrade, Serbia – KM 55 thousand Debt securities listed on the Stock Exchange in Bosnia and Herzegovina: • FBiH Government – KM 292 thousand	Equity securities listed on the Stock Exchange in Bosnia and Herzegovina: • Privredna banka Sarajevo d.d., Sarajevo – KM 1,831 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.

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

32. FAIR VALUE MEASUREMENT (CONTINUED)

32.2 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 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial asset				
Loans and receivables:				
- Loans to customers, net	202,479	263,039	150,290	170,058
- Financial assets held to maturity	2,987	2,987	397	397
Financial payables:				
At amortized cost:				
- Due to customers and financial institutions	250,097	244,919	153,987	154,228

	Fair value hierarchy as of 31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial asset				
Loans and receivables:				
- Loans to customers	-	263.039	-	263.039
- Financial assets held to maturity	2,987	-	-	2,987
	2,987	**263,039**	**-**	**266,026**
Financial payables:				
At amortized cost:				
- Due to customers, other banks and financial institutions	-	244,919	-	244,919
	-	**244,919**	**-**	**244,919**

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 on30 March 2017:

PRIVREDNA BANKA SARAJEVO DD SARAJEVO 1

Hamid Pršeš	Bedina Jusišić-Musa
Director	Executive director