PRIVREDNA BANKA SARAJEVO D.D. SARAJEVO

Financial statements for the nine-month period ended 30 September 2016 and Independent auditor's report

Contents

Responsibility for the financial statements

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

After making enquiries, the Management Board has a reasonable expectation that the Bank, after the completed status change of acquisition by BOR banka d.d. Sarajevo as of 30 September 2016 , i.e. transfer of total assets, rights and liabilities, that the Bank will continue in operational existence at the moment of acquisition on 30 September 2016, and hence the Management Board continues to adopt the going concern basis in preparing the financial statements.

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

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

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and must also ensure that the financial statements comply with the Law on Accounting and Auditing in 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 of Privredna banka d.d. Sarajevo

Hamid Pršeš
Director of BOR banka d.d.
Sarajevo – successor bank

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SARAJEVO

Zijad Lugonić
Head of Finance of Privredna banka
Sarajevo d.d., before acquisition

Privredna banka Sarajevo d.d.
Alipašina 6
71000 Sarajevo
Bosnia and Herzegovina

10 March 2017

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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 Privredna banka Sarajevo d.d. Sarajevo (the "Bank"), set out on pages 4 to 47 which comprise of the balance sheet as at 30 September 2016, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the nine-month period ended 30 September 2016, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls. 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 opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 30 September 2016, and of its financial performance and its cash flows for the nine-month period ended 30 September 2016 in accordance with International Financial Reporting Standards.

Emphasis of Matters

We draw your attention to the following matters:

- The comparative income statement, statement of comprehensive income, balance sheet, statement of changes in equity and cash flow statement included in the interim financial statements have been prepared for the year ended 31 December 2015. In accordance with the International Accounting Standard 34: "Interim Financial Reporting", interim financial statements should comprise the comparative income statement, statement of comprehensive income, balance sheet, statement of changes in equity and cash flow statement for the comparable period from the beginning of the year to the end of the period during the year for the previous financial year. Due to this fact, the reporting amounts for the current period are not comparable with the prior year amounts.
- The Bank's financial statements have been prepared under a going concern assumption. As explained in Note 3 to the financial statements, on 30 September 2016 the status change with the of acquisition of the Bank by BOR Banka d.d. Sarajevo was completed. All assets, rights and liabilities, and overall operations at the moment of acquisition have been transferred to the successor bank, BOR banka d.d. Sarajevo, and on 29 September 2016 the Banking Agency of Federation of Bosnia and Herzegovina revoked the Bank's operating licence. As of 21 December 2016 the Decision on deletion of the Bank from the register of business entities with the competent court was issued.
- Note 28 to the financial statements discloses the situation related to court proceedings with former and current employees of the Bank. As at 30 September 2016, claims by Bank's former and current employees against the Bank were in the amount of KM 3,015 thousand, for which the provisions in the total KM 3,430 thousand were recognised in the nine-month period ended 30 September 2016.
- Note 33.a) to the financial statements describes the situation related to non-compliance with the regulatory requirements related to capital adequacy of 12%, which amounted to minus 10.4% in 2015, and minus 12.1% in the nine-month period ended 30 September 2016. The Management regularly informed the Banking Agency of Federation of Bosnia and Herzegovina, and is not aware of circumstances or information as of 30 September 2016 that this non-compliance will have materially negative influence on the overall financial position or operations of the Bank given the certainty of acquisition of the Bank by BOR banka d.d. Sarajevo.

Other matters

The Bank's financial statements for the year ended 31 December 2015 were audited by another auditor who expressed disclaimer of opinion to those financial statements on 27 April 2016 due to inability to obtain adequate audit evidence to confirm the basis for going concern assumption adopted by the Management in preparation of the financial statements.

Our opinion is not qualified in respect of this matter.

Deloitte d.o.o.

Sead Bahtanović, director and licenced auditor

Deloitte d.o.o. Zmaja od Bosne 12c 71000 Sarajevo ID: 4200647380008

Sabina Softić, Partner and licenced auditor

Sarajevo, Bosna i Hercegovina

10 March 2017

Income statement
for the nine-month period ended 30 September 2016
(all amounts are expressed in thousands of KM, unless otherwise stated)

	Notes	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Interest and similar income	5	2,003	2,940
Interest expense and similar charges	6	(1,177)	(1,926)
Net interest income		**826**	**1,014**
Fee and commission income	7	4,280	5,506
Fee and commission expense		(659)	(969)
Net fee and commission income		**3,621**	**4,537**
Other operating income	8	260	381
Other (losses)/gains, net	9	(288)	220
Income from operating activities		**4,419**	**6,152**
Personnel expenses	10	(2,927)	(4,536)
Depreciation expenses	24	(481)	(785)
Other administrative expenses	11	(2,008)	(3,052)
Operating expenses		**(5,416)**	**(8,373)**
LOSS BEFORE IMPAIRMENT LOSSES, PROVISIONS AND INCOME TAX		**(997)**	**(2,221)**
Impairment losses and provisions	12	(2,750)	(3,034)
Recoveries	13	2,251	651
LOSS BEFORE INCOME TAX		**(1,496)**	**(4,604)**
Income tax expense	14	-	-
NET LOSS		**(1,496)**	**(4,604)**
Basic loss per share (in KM)	15	**(3.63)**	**(11.18)**

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

Statement of comprehensive income
for the nine-month period ended 30 September 2016
(all amounts are expressed in thousands of KM, unless otherwise stated)

	Notes	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Net loss		*(1,496)*	*(4,604)*
Other comprehensive gain / (loss):			
Items that will be subsequently reclassified to income statement when specific conditions are met:			
Fair value losses on financial assets available-for-sale	20	11	41
Property revaluation losses	24, 25	-	(891)
		11	*(850)*
TOTAL COMPREHENSIVE LOSS		**(1,485)**	**(5,454)**

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

Balance sheet
as of 30 September 2016

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

	Notes	30 September 2016	31 December 2015
ASSETS			
Cash and balances with banks	16	65,258	59,618
Obligatory reserve with the Central Bank of BiH	17	13,457	11,888
Placements with other banks, net	18	514	509
Loans to customers, net	19	53,280	62,269
Financial assets available-for-sale	20	381	365
Financial assets at FVTPL	21	-	-
Financial assets held to maturity	22	-	-
Other assets and receivables, net	23	1,009	1,287
Property and equipment, and intangible assets	24	17,820	16,065
Assets held for sale	25	-	2,513
Deferred tax assets	14	16	16
TOTAL ASSETS		**151,735**	**154,530**
LIABILITIES			
Due to customers	26	126,729	131,226
Due to other banks and financial institutions	27	3,371	3,093
Provisions	28	4,076	5,331
Other liabilities	29	6,629	2,465
Total liabilities		**140,805**	**142,115**
EQUITY			
Share capital	30	16,880	16,880
Share premium		6	6
Property revaluation reserve		7,643	7,830
Investments revaluation reserve		(218)	(229)
Regulatory reserves for credit losses		11	11
Accumulated losses		(13,392)	(12,083)
Total equity		**10,930**	**12,415**
TOTAL LIABILITIES AND EQUITY		**151,735**	**154,530**

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

Signed on behalf of the Bank on 10 March 2017:

Hamid Prses
Director of BOR banka d.d. Sarajevo - the successor bank

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Zijad Lugonić
Head of Finance of Privredna banka Sarajevo d.d., before acquisition

Cash flow statement
for the nine-month period ended 30 September 2016

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

	30 September 2016	2015
Operating activities		
Loss before taxation	(1,496)	(4,604)
Adjustments to net cash provided by operating activities:		
Depreciation and amortization	481	785
Additional impairment losses and provisions, net	2,750	3,034
Effects of impairment of acquired assets	335	-
Gain on disposal of tangible and intangible assets, net	-	(28)
Foreign exchange difference on financial assets available-for-sale	-	3
Realized gains on financial assets available-for-sale	(5)	(8)
Effects of changes in fair value of financial assets at FVTPL	-	(28)
Interest income from financial assets held to maturity recognized in income statement	-	(18)
Changes in assets and liabilities:		
Increase in obligatory reserve with the CBBH (net)	(1,569)	(279)
(Increase) / decrease in placements with other banks, before allowance (net)	(109)	3,361
Decrease / (increase) in loans to customers, before allowance (net)	7,507	(4,965)
Increase in other assets, before allowance (net)	53	(59)
Increase / (decrease) in deposits from other banks (net)	581	(8,054)
(Decrease) / increase in amounts due to customers (net)	(4,497)	4,041
Increase in other liabilities	4,164	817
Cash from / (used in) operating activities	*8,195*	*(6,002)*
Liabilities paid based on court proceedings	(2,194)	-
NET CASH FROM / (USED IN) OPERATING ACTIVITIES	**6,001**	**(6,002)**
Investing activities		
Purchase of financial assets held-to-maturity, net	-	2,511
Proceeds from financial assets at FVTPL	-	383
Purchase of tangible assets	(58)	(481)
Proceeds from tangible assets sold	-	1,631
NET CASH (USED IN) / FROM INVESTING ACTIVITIES	**(58)**	**4,044**
Financing activities		
Repayment of borrowings from other banks	(303)	-
NET CASH USED IN FINANCING ACTIVITIES	**(303)**	**-**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**5,640**	**(1,958)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	**59,618**	**61,576**
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	**65,258**	**59,618**

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

Statement of changes in equity
for the nine-month period ended 30 September 2016

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

	Share Capital	Share premium	Property revaluation reserve	Investments revaluation reserve	Regulatory reserves for credit losses	Accumulated losses	Total
Balance as of 31 December 2014	**16,880**	**6**	**9,429**	**(270)**	**11**	**(8,187)**	**17.869**
Net loss	-	-	-	-	-	(4,604)	(4,604)
Other comprehensive loss	-	-	(891)	41	-	-	(850)
Total comprehensive loss	-	-	*(891)*	*41*	-	*(4,604)*	*(5,454)*
Transfer of revaluation reserves to retained earnings (per IAS 16.41)	-	-	(708)	-	-	708	-
Balance as of 31 December 2015	**16,880**	**6**	**7,830**	**(229)**	**11**	**(12,083)**	**12,415**
Net loss	-	-	-	-	-	(1,496)	(1,496)
Other comprehensive loss	-	-	-	11	-	-	11
Total comprehensive loss	-	-	-	*11*	-	*(1,496)*	*(1,485)*
Transfer of revaluation reserves to retained earnings (per IAS 16.41)	-	-	(187)	-	-	187	-
Balance as of 30 September 2016	**16,880**	**6**	**7,643**	**(218)**	**11**	**(13,392)**	**10,930**

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

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

1. GENERAL

Privredna banka Sarajevo d.d. Sarajevo (the "Bank") was founded in 1989 as a result of the division of former Privredna banka Sarajevo - Joint Bank (PBS Group) into 9 independent banks. According to the agreement from 2001, the state-owned capital of the Bank was transferred to Sarajevo Privatization Venture ("SPV"), Cayman Islands - the company established by the Ministry of Finance of the Federation of Bosnia and Herzegovina, International Finance Corporation, Washington, USA and B.P. Invest Consult GmbH, Vienna, Austria. According to that agreement, SPV became owner of the total state-owned capital that represented 89% of total equity of the Bank.

Due to non-compliance with the law requirement in regards to the minimum level of capital, on 4 November 2004 by the Decision No. 04-1-136/04, the Banking Agency of the Federation of Bosnia and Herzegovina ("FBA") established the provisional administration within the Bank and suspended all competencies of managing and executive bodies of the Bank, as well as its owners and representatives. All competencies have been transferred to the provisional administrator introduced by FBA.

On 15 August 2007, the partners' group ″X-25″, acquired the majority share from SPV for KM 2,250,000. Furthermore, the partners' group ″X-25″ paid-in additionally KM 15,000,000. By this additionally paid-in capital, the law requirement in regards to the minimum level of capital has been fulfilled and, as a consequence, the provisional administration has been cancelled on 12 September 2008. The additional paid-in capital was registered with the Municipal court as of 1 April 2009.

On 30 September 2016, the status change of acquisition of the Bank by BOR banka d.d. Sarajevo was completed. All assets, rights and liabilities, and overall operations of the Bank at the moment of acquisition have been transferred to the successor bank BOR banka d.d. Sarajevo.

On 21 December 2016, the Decision on deletion from the register of business entities with the Municipal Court in Sarajevo, no. 065-0-Reg-16-004986, was issued.

Principal activities of the Bank include following services:

1. receiving and placing of deposits;
2. disbursement of loans;
3. buying and selling foreign currencies;
4. cash transactions in inter-bank market;
5. foreign currency exchange and other banking-related activities;
6. cash payment and transfer, both national and abroad.

Directors and Management

Supervisory Board:

Nedim Vilogorac	Chairman (until 30 September 2016)
Esmir Krnić	Member (until 30 September 2016)
Mujo Duraković	Member (until 5 January 2016)
Elvir Čizmić	Member (until 30 September 2016)

Management Board:

Adnan Bogunić	Director (until 30 September 2016)
Davor Tomić	Executive director (until 30 September 2016)
Zana Pekmez	Executive director (until 30 September 2016)

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and Interpretations effective in current period

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

- IFRS 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 and amendments to the existing standards has not led to any material changes in the Bank's financial statements.

2.2 Standards and Interpretations in issue not yet adopted

As at the date of adoption of these financial statements, the following standards, amendments to the existing standards, and interpretations were published but not yet in effect:

- 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 and interpretations "IFRS improvements (cycle 2014-2016)", which are the result of the project of annual qualitative improvement of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily through removing inconsistencies and clarifying wording (amendments to IFRS 12 shall be effective for annual periods beginning on or after 1 January 2017, and amendments to IFRS 1 and IAS 28 shall be effective 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 OF PRESENTATION AND SUMMARY OF 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 are made under the going concern basis, even though the status change of acquisition of the Bank by BOR Banka d.d. Sarajevo was completed on 30 September 2016. All assets, rights and liabilities, and overall operations of the Bank at the moment of acquisition have been transferred to the successor bank BOR banka d.d. Sarajevo, and on 29 July 2016 the Banking Agency of Federation of Bosnia and Herzegovina revoked the Bank's operating licence, and on 22 September 2016 the Decision on deletion from the register of business entities with the competent court was issued.

The continuation as a going concern is based on the going concern assumption of BOR banka d.d. Sarajevo as the legal successor of the Bank after the acquisition status change.

The financial statements include no adjustments that might result from this status change.

Basis of preparation

These financial statements have been prepared on a historical cost basis, with the exception of the revaluation of certain properties and financial instruments which are measured at revaluation 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.

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

Basis of preparation (continued)

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

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

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

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

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

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

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

The accounting policies set out below have been applied consistently to all periods that are presented in these financial statements.

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit and loss, are recognized within 'interest and similar income' and 'interest expense and similar charge' in the income statement using the effective interest rate method, which is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument to the net carrying amount of that financial instrument.

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

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

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.

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 (the “CBBH”) and current accounts with other banks. Cash and cash equivalents excludes the obligatory minimum reserve with the CBBH as these funds are not available for the Bank’s day to day operations. The compulsory minimum reserve with the CBBH is a required reserve to be held by all commercial banks licensed in Bosnia and Herzegovina.

Financial instruments

Financial assets and financial liabilities are 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.

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

Financial instruments (continued)

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: financial assets as "at fair value through profit or loss" (FVTPL), "available-for-sale", "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.

Effective interest rate method

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

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

Loans and receivables

Loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". The same arise when the Bank provides money to a debtor with no intention of simultaneous sale of these receivables or selling 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 amortized cost using the effective interest method, less any impairment losses. Interest income is recognized using the effective interest rate, except for short-term receivables in which case the recognition of interest would be immaterial.

Financial assets at FVTPL

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

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

Financial instruments (continued)

a) Financial assets (continued)

Financial assets at FVTPL (continued)

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 34.

AFS financial assets

Shares and government bonds held by the Bank are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in the Note 34. Gains and losses arising from changes in fair value are recognized directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are 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 investments revaluation reserve 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.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting period date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognized in profit or loss, and other changes are recognized in equity.

Impairment of financial assets

Financial assets, other than those at FVTPL, 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 amortized 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.

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

Financial instruments (continued)

a) Financial assets (continued)

Impairment of financial assets (continued)

The carrying amount of the financial asset is reduced by the impairment 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 amortized cost would have been had the impairment not been recognized.

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

Derecognition of financial assets

The 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"; or
- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out at above.

Financial liabilities

Financial liabilities are classified either as "financial liabilities at FVTPL" or "other financial liabilities". Currently, the Bank has no financial liabilities at FVTPL.

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

Financial instruments (continued)

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

Financial liabilities

Other financial liabilities

Other financial liabilities, including due to customers, other banks and financial institutions, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

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

Derecognition of financial liabilities

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

Property and equipment

Properties are stated at their 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 properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued property is recognized in profit or loss.

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.

Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Gains or losses on the retirement or disposal of property and equipment are included in the income statement in the period in which they occur.

Properties in the course of construction for supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Bank's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use.

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

Property and equipment (continued)

Depreciation commences when the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the estimated useful life of the applicable assets. Estimated depreciation rates were as follows:

Buildings	1.3%
Computers and other equipment	7% - 20%

Revaluation reserves

Revaluation reserves included in equity in respect of revalued items of property and equipment may be transferred directly to retained earnings when the assets are derecognized. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the revaluation reserves may be transferred as the assets are used by the Bank. In such a case, the amount of the reserve transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation reserves to retained earnings are not made through profit or loss.

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).

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.

Assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

Assets held for sale (continued)

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

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 those tax and contributions in the favour of the institutions of the Federation of Bosnia and Herzegovina (the "FB&H") (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 of 6 average salaries of the FBiH for the preceding month.

The cost of retirement severance payments are recognized when earned.

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 date of balance sheet. The principal rates of exchange set forth by the CBBH and used in the preparation of the Bank's balance sheet at the reporting dates were as follows:

30 September 2016	EUR 1 = KM 1.95583	1 USD = 1.743009 KM
31 December 2015	EUR 1 = KM 1.95583	1 USD = 1.790070 KM

Provisions

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

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.

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

Equity and reserves

Share capital

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

Reserves for credit losses formed from profit

Reserves for credit losses formed from profit are recognized in accordance with regulations of FBA and are non-distributable.

Property revaluation reserve

Property revaluation reserve comprises changes in property value measured according to revaluation model.

Investments revaluation reserve

Investments revaluation reserve comprises changes in fair value of financial assets available-for-sale.

Earnings per share

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

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

During 2016 and 2015 there were no effects of dilution.

If the number of ordinary or potential shares is increased as a result of a capitalization, bonus/free issue or sharing of shares, or if the number decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented is adjusted retrospectively.

If these changes occur after the reporting period date, but before issuing of financial statements, calculation of the amount per share for these financial statements and any previous period is based on the new number of shares.

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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.
The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property and equipment

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

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

Key sources of estimation uncertainty (continued)

Impairment losses on loans and receivables

As described in 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 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 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 and reserves.

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 34, 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, 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.

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

5. INTEREST AND SIMILAR INCOME

	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Companies	1,307	1,861
Individuals	674	970
Banks	22	109
	2,003	**2,940**

6. INTEREST EXPENSE AND SIMILAR CHARGES

	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Individuals	974	1,639
Companies	184	285
Banks	19	2
	1,177	**1,926**

7. FEE AND COMMISSION INCOME

	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Fees from domestic payment transactions	3,317	4,355
Fees from conversion transactions	427	580
Fees from guarantees issued	127	113
Other fee and commission income	409	458
	4,280	**5,506**

8. OTHER OPERATING INCOME

	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Rent income	208	209
Income on the basis of termination of term deposit	41	79
Dividend received	2	26
Other income	9	67
	260	**381**

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

9. OTHER (LOSSES) / GAINS, NET

	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Impairment of acquired assets (Note 24)	(335)	-
Net foreign exchange differences	36	(48)
Interest income from financial assets available for sale (Note 20)	5	8
Gain on disposed assets recorded as off - balance items	-	170
Realized gains from sold financial assets available for sale	-	28
Gain on disposal of tangible assets	-	28
Interest income from financial assets held to maturity (Note 22)	-	18
Other	6	16
	(288)	**220**

10. PERSONNEL EXPENSES

	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Net salaries	1,460	2,282
Taxes and contributions	1,122	1,697
Other expenses	345	557
	2,927	**4,536**

The number of employees of the Bank as of 30 September 2016 was 112 (31 December 2015: 142 employees).

11. OTHER ADMINISTRATIVE EXPENSES

	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Professional services	687	902
Maintenance	254	303
Fuel and energy	172	313
Rent	136	193
Telecommunication costs	130	188
Membership fees	124	196
Advertising and marketing	105	92
Court proceedings	83	262
Fees to Supervisory Board members	57	98
Insurance	49	96
Cost of material	36	62
Other costs	175	347
	2,008	**3,052**

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

12. IMPAIRMENT LOSSES AND PROVISIONS

	Notes	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Increase / (decrease) in impairment losses on loans to customers	19	1,482	(1,437)
Increase in provisions for court proceedings	28	948	2,757
Impairment losses on other assets and receivables	23	225	220
Impairment losses on placements with other banks	18	104	1,497
Increase / (decrease) in provision for other employee benefits	28	93	(91)
Impairment losses on tangible assets and AFS assets	24	-	3
(Release) / increase of provision for commitments and contingencies	28	(102)	85
		2,750	**3,034**

13. RECOVERIES

	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Income from collection of written-off loan principle amounts	1,971	14
Income from collection of written-off interest receivables	280	637
	2,251	**651**

14. INCOME TAX

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

	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Current income tax	-	-
Deferred income tax	-	-
Total tax	-	-

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

14. INCOME TAX (CONTINUED)

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

	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Loss before income tax	**(1,496)**	**(4,604)**
Income tax benefit at the statutory rate of 10%	(150)	(460)
Effects of non-deductible expenses	109	360
Effects of capital gains	19	71
Effects of non-taxable income	(2)	(3)
Effect of tax losses from previous years	(2,742)	(2,710)
Unrecognized deferred tax assets	**(2,766)**	**(2,742)**

The Bank has KM 27,656 thousand of transferred tax losses, which, if not used, will expire as follows:

2017 – KM 3,339 thousand;

2018 – KM 18.218 thousand;

2019 – KM 5.544 thousand;

2020 – KM 321 thousand;

2021 – KM 234 thousand.

Tax losses of Privredna Banka Sarajevo d.d. Sarajevo cannot be transferred through acquisition process to the successor bank. In accordance with the provisions of the Rulebook on Implementation of the Law on Corporate Income Tax, a taxpayer that acquires another taxpayer cannot use tax losses of the acquired taxpayer as decrease of its future tax base.

Movements in deferred tax assets were as follows:

	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Balance at the beginning of the period / year	**16**	**16**
Release of deferred tax assets	-	-
Balance at the end of the period / year	**16**	**16**

15. BASIC LOSS PER SHARE

	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Weighted average number of shares for the purpose of basic earnings per share	411,700	411,700
Net result (KM)	(1,495,597)	(4,603,912)
Basic loss per share (KM)	**(3.63)**	**(11.18)**

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

16. CASH AND BALANCES WITH BANKS

	30 September 2016	31 December 2015
Current accounts with other banks in foreign currencies	21,660	20,505
Current account with the CBBH	39,253	32,899
Cash on hand	4,345	6,214
	65,258	**59,618**

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

	30 September 2016	31 December 2015
Obligatory reserve with the CBBH	12,829	11,392
Separate reserve by the Article 42a. of the Law on Banks	628	496
	13,457	**11,888**

Minimum obligatory reserve is calculated as a percentage of the average amount of total deposits and borrowings for each working day during 10 calendar days following the period of maintaining the obligatory reserve. The percentage of obligatory reserves is 10% of total deposits and borrowings, regardless of the currency in which they are denominated.

Interest rate on funds kept at the CBBH kept up to minimum obligatory reserve was 0% (2015: 0%), and interest rate on amount exceeding the minimum obligatory reserve is equal to 50% of the rate applied by the European Central Bank on deposits of commercial banks. Cash held at the obligatory reserve account with the CBBH is not available for daily operations without specific approval from the CBBH and FBA.

The new Decision on determining and maintaining obligatory reserves and determining CBBiH fee on the amount of reserve ("Official Gazette of BiH", no. 30/16) is in application since 1 July 2016, according to which unified obligatory reserve rate of 10% is determined, which the CBBiH applies on the basis for calculation of obligatory reserve. 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.

18. PLACEMENTS WITH OTHER BANKS, NET

	30 September 2016	31 December 2015
Term deposits with banks registered:		
- in OECD countries	456	464
- in other countries	3,245	3,128
Less: Allowance for impairment losses	(3,187)	(3,083)
	514	**509**
Expected realization:		
- in period until 12 months from reporting date	3,245	3,140
- in period over 12 months from reporting date	456	452
	3,701	***3,592***
Less: Impairment losses	(3,187)	(3,083)
	514	**509**

18. PLACEMENTS WITH OTHER BANKS, NET (CONTINUED)

As of 30 September 2016, deposits with other banks are as follows:

Bank	Currency	Amount in currency (in thousands)	Annual interest rate	Amount in KM (in thousands)
Bobar banka a.d. in liquidation Bijeljina	BAM	3,000	3.30%	3,000
USB, Zurich, Switzerland	CHF	257	0.10%	456
Sparkasse bank d.d. Sarajevo	BAM	225	-	245
				3,701

During 2014, the Bank deposited amount of KM 3 million in Bobar banka a.d. Bijeljina. In accordance with decisions by Banking Agency of Republika Srpska, provisional administration was established in this bank in November 2014, and banking license was revoked and the liquidation process was started in December 2014. As of 31 December 2014, the Bank recognized impairment for this placement in amount of 50% or KM 1,500 thousand, based on following knowledge and information:

- The Bank's placement into Bobar banka a.d. in liquidation Bijeljina is fully documented, validated and recognized by the liquidation administrator based on Decision on the recognition of claims by the liquidation trustee number 574 -I /15 from 20 March 2015.
- According to the Law on liquidation in Republika Srpska, Article 1 states that "The liquidation process is conducted over the legal entities. It serves for a full settlement of all creditors of the legal entity through realization of its assets", and according to the article 338 of the Law on companies in Republika Srpska, Article 338 which states that "voluntary liquidation of the entity is conducted in accordance with this law when the entity has sufficient financial assets to cover its liabilities, in particular: a) if natural and other conditions for managing the business stops, b) if the period for which It is established, expires c) if partners, members or shareholders choose so", and bearing in mind the Law on banks in Republika Srpska in which, inter alia, in Article 21, states that "from the date of revocation of license or authorization, established by the Decision from Article 19 of this law, the bank is prohibited to engage in banking activities specified in article 87 of this Law. The Bank is obliged to terminate existing contracts of deposit, pay off its liabilities and liquidate its assets".
- The Bank's claim from 16 April 2015 at the District Court of Bijeljina, which determines whether the receivables of the Bank are in the first or second payment priority.
- Opinion of the law firm regarding the claim successing by which is established that Bank's claims fall within the first or second payment priority, and explained its likelihood of success in the present dispute in the percentage of minimum 50%.
- Letter received from the liquidation administrator stating the notice on reservation of funds / deposits according to lawsuit filed by the Bank in the full amount, and the statement that those funds will not be subject to distribution until legal proceedings is finally completed.
- Promissory note serial number: PC 422758466 issued by Bobar banka a.d. in the liquidation Bijeljina.

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

18. PLACEMENTS WITH OTHER BANKS, NET (CONTINUED)

Changes in allowance can be presented as follows:

	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Balance at the beginning of the period / year	**3,083**	**1,586**
Increase in allowance for impairment losses (Note 12)	104	1,497
Balance at the end of the period / year	**3,187**	**3,083**

19. LOANS TO CUSTOMERS, NET

	30 September 2016	31 December 2015
Short-term loans:		
Corporate loans	31,986	35,900
Retail loans	1,037	822
Add: Current portion of long-term loans	4,967	9,998
	37,990	*46,720*
Long-term loans:		
Corporate loans	53,803	56,874
Retail loans	12,092	12,829
Less: Current portion of long-term loans	(4,967)	(9,998)
	60,928	*59,705*
Total loans before allowance for impairment	**98,918**	**106,425**
Less: Allowance for impairment losses	(45,638)	(44,156)
	53,280	**62,269**

Changes in allowance can be presented as follows:

	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Balance at the beginning of the period / year	**44,156**	**45,593**
Additional / (release of) allowance for impairment losses, net (Note 12)	1,482	(1,437)
Balance at the end of the period / year	**45,638**	**44,156**

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

19. LOANS TO CUSTOMERS, NET (CONTINUED)

Analysis of gross loans before allowance for impairment by industry:

	30 September 2016	31 December 2015
Trade	29,705	32,077
Manufacturing	24,583	25,591
Real estate	8,715	9,392
Construction	6,181	8,910
Tourism	8,926	7,742
Financial services	1,585	2,196
Transportation	1,131	1,279
Agriculture	578	566
Administrative and public institutions	38	3
Other	425	792
Individuals	15,565	16,509
Interest and fees	1,486	1,368
	98,918	**106,425**

Average interest rate can be presented as follows:

	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Corporate	4%-12%	5%-9.50%
Retail	4.95%-11.49%	5.53%-8.70%

20. FINANCIAL ASSETS AVAILABLE-FOR-SALE

	Industry	% of ownership	30 September 2016	31 December 2015
Debt securities:				
Bonds of the Government of the FB&H	Government	-	291	267
			291	***267***
Equity securities:				
JUBMES Banka a.d. Belgrade, Serbia	Banking	0.29	58	66
Bosna Reosiguranje d.d. Sarajevo	Insurance	0.49	32	32
			90	***98***
			381	**365**

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

20. FINANCIAL ASSETS AVAILABLE-FOR-SALE (CONTINUED)

Movements in the fair value of the financial assets available-for-sale were as follows:

	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Balance at the beginning of the period / year	**365**	**319**
Accrued interest (Note 9)	5	8
Fair value adjustment	11	41
Foreign exchange differences	-	(3)
Balance at the end of the period / year	**381**	**365**

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

On 19 December 2008, the Bank signed an agreement with the Federal Ministry of Finance with regards to the settlement of the Bank's receivables from seven companies in which cases the FB&H has become the main debtor as the majority shareholder in these state-owned companies. According to that agreement, among the other assets obtained as recoveries, the Bank has got the shares of BOR Banka d.d. Sarajevo in total amount of KM 13,003,600. Due to the requirements prescribed by FBA, the Bank was obtaining and selling these shares in lots. Those shares were recognized as financial assets at FVTPL. During 2015, the Bank sold the shares of BOR Banka d.d. Sarajevo in total amount.

Movements in the financial assets at FVTPL were as follows:

	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Balance at the beginning of the period / year	-	**355**
Effect of change in fair value, net (Note 9)	-	28
Sold during the year	-	(383)
Balance at the end of the period / year	-	-

22. FINANCIAL ASSETS HELD TO MATURITY

During 2015, the Bank purchased treasury bills of the Government of the FBiH with nominal values of: KM 2,800,000 and maturity date as of 23 September 2015, KM 2,000,000 and maturity date as of 29 July 2015, and KM 1,000,000 with maturity date as of 16 December 2015. Treasury bills are bought with discount in range from 0.17% to 0.35%. All treasury bills were collected by 31 December 2015.

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

22. FINANCIAL ASSETS HELD TO MATURITY (CONTINUED)

Movements in financial assets held to maturity were as follows:

	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Balance at the beginning of the period / year	-	**2,492**
Purchases during the year	-	5,786
Accrued interest (Note 9)	-	18
Collected during the year	-	(8,296)
Balance at the end of the period / year	-	-

23. OTHER ASSETS AND RECEIVABLES, NET

	30 September 2016	31 December 2015
Receivables from shareholders for payments based on out-of-court settlements with employees	1,129	1,129
Receivables for fees	697	695
Precious metals	501	410
Receivables from Federal Ministry of Finance	367	367
Receivable for 'Diners' cards	82	74
Prepaid expenses	70	45
Advances paid	58	14
Prepaid income tax	54	218
Other	4	63
Total other assets and receivables before allowance	***2,962***	***3,015***
Less: Allowance for impairment losses	(1,953)	(1,728)
	1,009	**1,287**

Changes in allowance are presented as follows:

	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Balance at the beginning of the period / year	**1,728**	**1,508**
Additional allowance for impairment losses, net (Note 12)	225	220
Balance at the end of the period / year	**1,953**	**1,728**

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

24. TANGIBLE AND INTANGIBLE ASSETS

	Buildings *(revalued amount)*	Leasehold improvements *(cost)*	Computer and office equipment *(cost)*	Investment in progress *(cost)*	Intangible assets *(cost)*	Total
COST / REVALUED AMOUNT						
At 31 December 2014	**32,262**	**-**	**4,521**	**22**	**1,807**	**38,612**
Additions	-	-	-	481	-	481
Transfers (from) / to	325	-	55	(450)	70	-
Disposals	(1,256)	-	-	-	-	(1,256)
Revaluation effects	(1,617)	-	(213)	-	-	(1,830)
At 31 December 2015	**29,714**	**-**	**4,363**	**53**	**1,877**	**36,007**
Additions	-	-	-	9	-	9
Repossessed collaterals	39	-	10	-	-	49
Transfers (from) / to	-	4	41	(45)	-	-
Adjustment of value of acquired assets (Note 9)	(325)	-	(10)	-	-	(335)
Transfer from non-current assets available for sale (Note 25)	3,780	-	-	-	-	3,780
At 30 September 2016	**33,208**	**4**	**4,404**	**17**	**1,877**	**39,510**
ACCUMULATED DEPRECIATION						
At 31 December 2014	**14,810**	**-**	**3,635**	**-**	**1,461**	**19,906**
Depreciation charge	393	-	225	-	167	785
Revaluation effects	(522)	-	-	-	-	(522)
Disposals	(174)	-	(53)	-	-	(227)
At 31 December 2015	**14,507**	**-**	**3,807**	**-**	**1,628**	**19,942**
Depreciation charge	300	-	121	-	60	481
Transfer from long-term assets available-for-sale (Note 25)	1,267	-	-	-	-	1,267
At 30 September 2016	**16,074**	**-**	**3,928**	**-**	**1,688**	**21,690**
NET BOOK VALUE						
At 30 September 2016	**17,134**	**4**	**476**	**17**	**189**	**17,820**
At 31 December 2015	**15,207**	**-**	**556**	**53**	**249**	**16,065**

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

24. TANGIBLE AND INTANGIBLE ASSETS

The Bank conducted the revaluation of buildings as of 31 December 2015. Effects of revaluation are as follows:

- Unused business premises- net book value before revaluation amounted to KM 15,941 thousand, while fair value amounts to KM 15,207 thousand. Net effects amounts to KM 734 thousand (Note 24).
- Assets held for sale- net book value before revaluation amounted to KM 2,673 thousand KM, while fair value amounts to KM 2,513 thousand. Net effect amounts to KM 160 thousand (Note 25).

The effects of revaluation have been fully recognized as of 31 December 2015, out of which KM 3 thousand have been recognized through income statement (Note 12), and KM 891 thousand in other comprehensive income. Repeated revaluation of properties was not conducted as of 30 September 2016.

Measuring the fair value of the Bank's investment in properties as at 31 December 2015 were conducted by Mrs. Zulfija Skokić. The appraiser is independent from the Bank and has appropriate qualifications and experience in estimating the fair value of the assets in the relevant locations. Revaluation of Bank's investment property was not conducted as of 30 September 2016.

25. ASSETS HELD FOR SALE

	2016	2015
Balance at the beginning of the period / year	**2,513**	**2,673**
Transfer to property and equipment, and intangible assets (Note 24)	(2,513)	-
Impairment	-	(160)
Balance at the end of the period / year	**-**	**2,513**

26. DUE TO CUSTOMERS

	30 September 2016	31 December 2015
Demand deposits:		
Individuals:		
In KM	31,155	28,442
In foreign currencies	29,840	27,472
	60,995	55,914
Companies:		
In KM	15,063	13,723
In foreign currencies	425	561
	15,488	*14,284*
	76,483	***70,198***
Term deposits:		
Individuals:		
In KM	13,940	16,781
In foreign currencies	32,404	38,193
	46,344	*54,974*
Companies:		
In KM	2,930	4,824
In foreign currencies	972	1,230
	3,902	*6,054*
	50,246	***61,028***
	126,729	**131,226**

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

26. DUE TO CUSTOMERS (CONTINUED)

During 2016, interest rates on demand deposits were in the range 0.01% (2015: 0.01%) and interest rates on term deposits were in the range 0.3% to 6.1% (2015: 0.5% to 6.5%).

27. DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	30 September 2016	31 December 2015
Deposits received from other banks and financial institutions	2,164	1,583
Liability toward Landesversicherungsanstalt Niederbayern-Oberpfalz	1,207	1,510
	3,371	**3,093**

Deposits received from other banks and financial institutions were as follows:

	30 September 2016	31 December 2015
Other banks:		
Demand deposits	8	7
Short-term deposits	-	2
Long-term deposits	-	-
	8	***9***
Other financial institutions:		
Demand deposits	1,006	424
Long-term deposits	1,150	1,150
	2,156	***1,574***
	2,164	**1,583**
Expected to be recovered:		
- no more than twelve months after the reporting period	1,014	583
- more than twelve months after the reporting period	1,150	1,000
	2,164	**1,583**

On 5 September 2002, the Bank signed the agreement with Landesversicherungsanstalt Niederbayern-Oberpfalz, Germany ("LVA"). According to that agreement, LVA has undertaken the Bank's liabilities toward German pension institutions in total amount of EUR 2,315,311, related to April and May 1992. The Bank should reimburse this amount up to 31 December 2020. Repayment of principle started on 1 January 2006 and is being repaid through 30 equal semi-annual instalments in the amount of EUR 77,177 (every 1 January and 1 July). This debt is bearing interest of 6-month EURIBOR p.a.

28. PROVISIONS

	30 September 2016	31 December 2015
Provisions for court proceedings	3,430	4,676
Provisions for other employee benefits	474	381
Provisions for contingent liabilities (Off-Balance sheet)	128	230
Other provisions	44	44
	4,076	**5,331**

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

28. PROVISIONS (CONTINUED)

Changes in provisions are presented as follows:

	Court proceedings	Contingent liabilities	Liabilities toward employees	Other provisions	Total
Balance as of 31 December 2014	**1,919**	**145**	**472**	**44**	**2,580**
Increase (Note 12)	2,757	85	-	-	2,842
Decrease (Note 12)	-	-	(91)	-	(91)
Balance as of 31 December 2015	**4,676**	**230**	**381**	**44**	**5,331**
Increase (Note 12)	948	-	93	-	1,041
Decrease (Note 12)	-	(102)	-	-	(102)
Decrease due to payment	(2,194)	-	-	-	(2,194)
Balance as of 30 September 2016	**3,430**	**128**	**474**	**44**	**4,076**

According to the Bank's records, the value of the claims of current and former employees as of 30 September 2016 was KM 3,015 thousand.

The Bank made and recognized provisions as at 30 September 2016 in the amount of KM 3,430 thousand based on legislation and court practice, as well as on opinions and estimates of success in individual disputes with employees. Legislation and opinions taken into account when considering the required level of provisions are as follows:

- Labour law in the FBiH;
- General Collective Agreement for the territory of the FBiH;
- Collective Agreement for finance industry of the FBiH;
- Verdicts by the Supreme Court of the FBiH, as the highest court instances of the FBiH, for the same and/or similar factual and legal grounds;
- Opinion of law firms representing the Bank in individual disputes with employees;
- Identification of contingent liabilities of Privredna Banka Sarajevo d.d. Sarajevo arising from employment relations within the preparation phase for the status change of acquisition by BOR banka d.d. Sarajevo.

Provisions for legal proceedings relate to the following:

	30 September 2016	31 December 2015
Legal proceedings with current and former employees	2,980	4,524
Lawyer's office Koldžo-Gavrankapetanović	450	152
	3,430	**4,676**

The Management believes that the amounts are adequately provided for.

Contingent liabilities (Off-balance sheet) were as follows:

	30 September 2016	31 December 2015
Performance bonds	1,374	3,212
Payment guarantees	3,225	3,155
Irrevocable credits	1,983	3,470
	6,582	**9,837**

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

29. OTHER LIABILITIES

	30 September 2016	31 December 2015
Liabilities toward BOR banka d.d. Sarajevo based on transfer of cash assets on nostro accounts	5,022	-
Transitory accounts for enforced collection	396	389
Liabilities for unallocated proceeds	350	559
Liabilities for pensions earned in abroad	208	331
Liabilities from managed funds (Note 31)	123	237
Liabilities toward suppliers	104	187
Liabilities for pensions earned within the country	75	46
Liabilities for unpaid pensions from previous periods (from 1992)	71	71
Deferred income	17	17
Employee payables	-	206
Other	263	422
	6,629	**2,465**

30. SHARE CAPITAL

The Bank's ownership structure was as follows:

	30 September 2016		31 December 2015	
Shareholder	**Amount in KM '000**	**% of ownership**	**Amount in KM '000**	**% of ownership**
Fabrika duhana Sarajevo d.d. Sarajevo	2,912	17.3	2,912	17.3
UNIS Fagas, Sarajevo	1,742	10.3	1,742	10.3
BOR banka d.d. Sarajevo	1,668	9.9	1,668	9.9
Unigradnja d.d. Sarajevo	1,199	7.1	1,199	7.1
Aquareumal d.o.o. Fojnica	-	-	1,146	6.8
Yildizar Constructions and Trading Co. Ankara, Turkey	970	5.7	970	5.7
Čausević Almedina, Sarajevo	654	3.9	865	5.1
ZIF MI-group d.d. Sarajevo	615	3.6	-	-
Bekto Precisa d.o.o. Goražde	574	3.4	574	3.4
Beglerović Nedžad, Sarajevo	559	3.3	559	3.3
LOK Institut za organizaciju i ekonomiku d.o.o. Sarajevo	550	3.3	554	3.3
Other shareholders	5,437	32.2	4,691	27.8
	16,880	**100**	**16,880**	**100**

Share capital is made up of 411,700 ordinary shares at nominal value of KM 41 (31 December 2015: 367,768 ordinary shares at nominal value of KM 41).

With the aim of resolving non-compliance related to equity, the Bank Assembly adopted the decision on acquisition of the Bank by BOR banka d.d. Sarajevo on 8 June 2016.

On 9 September 2016, the Bank received the Decision of the Securities Commission on approving the acquisition of the Bank by BOR banka d.d. Sarajevo.

On 29 September 2016, the Bank received the Decision of the Banking Agency of FBiH revoking the permission for establishing and performing banking operations to Privredna banka Sarajevo d.d. Sarajevo as of 30 September 2016.

Formal merger of the banks was conducted as of 1 October 2016.

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

30. SHARE CAPITAL (CONTINUED)

Simultaneously with the deletion of Privredna banka Sarajevo d.d. Sarajevo from the register of legal entities (065-o-Reg-16-004986, dated 21 December 2016), the registration of status change of acquisition of the Bank by BOR banka d.d. Sarajevo (065-0-Reg-16-004985, dated 21 December 2016) was completed. On 4 January 2017, securities with the nominal value of KM 41 by the issuer Privredna banka Sarajevo d.d. Sarajevo were deleted, and new shares with the nominal value of KM 110 by the issuer BOR banka d.d. Sarajevo were registered, in accordance with the determined and approved share swap rate.

31. MANAGED FUNDS

Funds managed by the Bank on behalf of third parties 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 its customers:

	30 September 2016	31 December 2015
PLACEMENTS		
Companies	998	882
Citizens	252	247
	1,250	**1,129**
SOURCES		
Companies	755	755
Government	600	593
Non-profit and non-banking organizations	18	18
	1,373	**1,366**
Current liabilities from managed funds (Note 29)	**123**	**237**

32. RELATED-PARTY TRANSACTIONS

Transactions with related parties are summarized as follows:

	30 September 2016		31 December 2015	
	Receivables	Payables	Receivables	Payables
Loans to members of Management Board and shareholders	11,709	5,631	11,743	-
Receivables from shareholders for payments based on out-of-court settlements with employees	1,129	-	1,129	-
Deposits from shareholders	-	-	-	609
	12,838	**5,631**	**12,872**	**609**

	Nine-month period ended 30 September 2016		Year ended 31 December 2015	
	Income	Expense	Income	Expense
Interest on loans to members of Management Board and shareholders	7	-	35	-
Interest on deposits from shareholders	-	18	-	30
	7	**18**	**35**	**30**

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

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

32. RELATED-PARTY TRANSACTIONS (CONTINUED)

Directors' and Supervisory Board remunerations

The remunerations of Management and Supervisory Board were as follows:

	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Gross salaries of Management Board	346	462
Other benefits of Management Board	4	6
Fees to the members of Supervisory Board	57	98
	407	**566**

33. 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:

	30 September 2016	31 December 2015
Debt	130,100	134,319
Equity	3,494	4,803
Net debt to equity ratio	**37.24**	**27.97**

Debt is defined as liabilities toward clients, other banks and financial institutions presented in detail in Notes 26 and 27. Capital includes share capital, share premium and accumulated losses.

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%.

Bank's net-capital is divided into two tiers:

- Tier 1 capital or Core Capital: share capital (reduced for any carrying amount of treasury shares), statutory reserves and accumulated losses, excluding net profit for the current year; and
- Tier 2 capital or Supplementary Capital: qualified subordinated debt, impairment losses on portfolio basis, unrealized gains / losses based on assessment of fair value of equity instruments classified as available for sale, and receivables from shareholders.

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

33. FINANCIAL INSTRUMENTS (CONTINUED)

a) Capital risk management (continued)

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 at 30 September 2016 and 31 December 2015, the Bank was non-compliant with all externally imposed capital requirements. As at 30 September 2016, Bank's capital adequacy was minus 12.1% (negative) (2015: minus 10.4%).

	30 September 2016	31 December 2015
Tier 1 capital		
Share capital	16,880	16,880
Share premium and other capital	9	10
Accumulated losses	(13,581)	(12,351)
Negative revaluation reserves	(219)	(230)
Intangible assets	(206)	(266)
Deferred tax assets	(16)	(16)
Total tier 1 capital	**2,867**	**4,027**
Tier 2 capital		
General regulatory reserves under FBA rules	754	815
Positive revaluation reserves	679	1,199
Total tier 2 capital	**1,433**	**2,014**
Adjustment for shortfall in regulatory reserves	(11,911)	(13,681)
Net capital	(7,611)	**(7,640)**
Risk Weighted Assets and loan equivalents (unaudited)	52,704	61,054
Weighted Operational Risk (unaudited)	10,129	12,578
Total weighted risk	**62,833**	**73,632**
Capital adequacy (%)	**(12.1%)**	**(10.4%)**

b) Significant accounting policies

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

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

33. FINANCIAL INSTRUMENTS (CONTINUED)

c) Categories of financial instruments

	30 September 2016	31 December 2015
Financial assets		
Loans and receivables		
Cash and cash equivalents (including Obligatory reserves with the CBBH)	*78,715*	*71,506*
Loans to clients, net	*53,280*	*62,269*
Placements with other banks	*514*	*509*
Other assets	*950*	*886*
Financial assets held to maturity	-	-
Financial assets at FVTPL	-	-
Financial assets available-for-sale	381	365
	133,840	**135,535**
Financial liabilities		
At amortized cost		
Liabilities to customers	*126,729*	131,226
Liabilities to customers	*3,371*	*3,093*
Other liabilities	*6,093*	*1,077*
	136,193	**135,396**

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

33. FINANCIAL INSTRUMENTS (CONTINUED)

d) Financial risk management objectives

The Bank's Finance department provides services to the business, 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 primarily 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.

f) Foreign currency risk management

The Bank undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

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	Other	Allowance	Total
As of 30 September 2016							
ASSETS							
Cash and balances with other banks	42,399	15,893	1,891	3,756	1,319	-	65,258
Obligatory reserves with the CBBH	13,457	-	-	-	-	-	13,457
Placements with other banks	3,245	-	-	456	-	(3,187)	514
Loans to customers	98,812	106	-	-	-	(45,638)	53,280
Financial assets available-for-sale	322	-	-	-	59	-	381
Financial assets held to maturity	-	-	-	-	-	-	-
Other assets	2,498	405	-	-	-	(1,953)	950
	160,733	**16,404**	**1,891**	**4,212**	**1,378**	**(50,778)**	**133,840**
LIABILITIES							
Amounts due to customers	63,094	56,841	1,853	4,158	783	-	126,729
Due to other banks and financial institutions	2,163	1,208	-	-	-	-	3,371
Other liabilities	683	4,958	-	-	452	-	6,093
Total	**65,940**	**63,007**	**1,853**	**4,158**	**1,235**	**-**	**136,193**
As of 31 December 2015							
Total monetary assets	**159,319**	**16,938**	**1,999**	**4,268**	**850**	**(47,839)**	**135,535**
Total monetary liabilities	**66,704**	**61,698**	**1,980**	**4,278**	**736**	**-**	**135,396**

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

33. FINANCIAL INSTRUMENTS (CONTINUED)

f) Foreign currency risk management (continued)

Foreign currency sensitivity analysis

The Bank is mainly exposed to EUR, USD and CHF. Since Convertible Mark (KM) is pegged to EUR, the Bank is not exposed to risk of change of EUR exchange rate.

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

	USD Impact		**CHF Impact**	
	30 September 2016	**31 December 2015**	**30 September 2016**	**31 December 2015**
Profit / (loss)	4	2	5	(1)

g) Interest rate risk management

The Bank is exposed to interest rate risk as the Bank is placing and borrowing funds at both fixed and floating interest rates. 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's net result for the year ended 30 September 2016 would decrease / increase by KM 137 thousand (2015: KM 248 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. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

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

Except stated in table below, 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)

33. FINANCIAL INSTRUMENTS (CONTINUED)

h) Credit risk management (continued)

Financial assets

	Total gross carrying amount	Unimpaired assets	Individually impaired assets	Allowance for impairment losses	Total net carrying amount
At 30 September 2016					
Cash and balances with other banks	65,258	65,258	-	-	65,258
Obligatory reserves with the CBBH	13,457	13,457	-	-	13,457
Placements with other banks	3,701	456	3,245	(3,187)	514
Loans to customers	98,918	26,834	72,084	(45,638)	53,280
Financial assets available-for-sale	381	381	-	-	381
Other assets	2,903	950	1,953	(1,953)	950
	184,618	**107,336**	**77,282**	**(50,778)**	**133,840**
At 31 December 2015					
Cash and balances with other banks	59,618	59,618	-	-	59,618
Obligatory reserves with the Central Bank	11,888	11,888	-	-	11,888
Placements with other banks	3,592	128	3,464	(3,083)	509
Loans to customers	106,425	4,241	102,184	(44,156)	62,269
Financial assets available-for-sale	365	365	-	-	365
Other receivables	1,486	1,486	-	(600)	886
	183,374	**77,726**	**105,648**	**(47,839)**	**135,535**

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

33. FINANCIAL INSTRUMENTS (CONTINUED)

h) Credit risk management (continued)

Credit exposure and collateral

	Credit risk exposure		
	Net exposure	Loan commitments / Guarantees	Value of collateral
At 30 September 2016			
Cash and balances with other banks	65,258	-	-
Obligatory reserves with the CBBH	13,457	-	-
Placements with other banks	514	-	-
Loans to customers	53,280	6,582	67,510
Financial assets at FVTPL	-	-	-
Financial assets available-for-sale	381	-	-
Financial assets held to maturity	-	-	-
Other assets	950	-	
	133,840	**6,582**	**67,510**
At 31 December 2015			
Cash and balances with other banks	59,618	-	-
Obligatory reserves with the CBBH	11,888	-	-
Placements with other banks	509	-	-
Loans to customers	62,269	9,837	72,106
Financial assets available-for-sale	365	-	-
Other assets	886	-	-
	135,535	**9,837**	**72,106**

Value of the collaterals

	Nine-month period ended 30 September 2016	Year ended 31 December 2015
Real estate	55,034	58,362
Deposits	1,061	2,089
Other	11,415	12,281
	67,510	**72,732**

Arrears

	Total gross loans to clients	Not due	Up to 30 days	31 to 90 days	91 to 180 days	Over 181 days
30 September 2016						
Retail	13,129	11,248	32	10	15	1,824
Corporate	85,789	21,449	44	151	276	63,869
	98,918	**32,697**	**76**	**161**	**291**	**65,693**
31 December 2015						
Retail	13,962	11,924	105	11	6	1,916
Corporate	92,463	34,478	1,759	125	91	56,010
	106,425	**46,402**	**1,864**	**136**	**97**	**57,926**

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

33. 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 and other financing sources, 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 3 months	4 months to 1 year	2 to 5 years	5+ years	Total
30 September 2016							
Non-interest bearing	-	68,161	-	-	90	245	68,496
Variable interest rate instruments	5.92%	37,270	2,120	8,622	6,574	2,226	56,812
Fixed interest rate instruments	1.18%	13,963	14	355	95	3,456	17,883
		119,394	**2,134**	**8,977**	**6,759**	**5,927**	**143,191**
31 December 2015							
Non-interest bearing	-	60,914	-	-	-	-	60,914
Variable interest rate instruments	7.6%	64,950	7,867	18,785	21,692	3,663	116,957
Fixed interest rate instruments	0.1%	11,891	2	8	452	-	12,353
		137,755	**7,869**	**18,793**	**22,144**	**3,663**	**190,224**

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 3 months	4 months to 1 year	2 to 5 years	5+ years	Total
30 September 2016							
Non-interest bearing	-	66,185	-	-	-	-	66,185
Variable interest rate instruments	2.51%	28,277	56,553	19,872	22,742	230	127,674
Fixed interest rate instruments	3.19%	492	984	1,852	2,432	287	6,047
		94,954	**57,537**	**21,724**	**25,174**	**517**	**199,906**
31 December 2015							
Non-interest bearing	-	22,886	113	411	-	1	23,411
Variable interest rate instruments	2.41%	11,859	3,087	23,776	28,690	44	67,456
Fixed interest rate instruments	0.36%	37,565	1,111	2,551	3,506	391	45,124
		72,310	**4,311**	**26,738**	**32,196**	**436**	**135,991**

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)

34. FAIR VALUE MEASUREMENT

34.1 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 as at**		**Fair value hierarchy**	**Valuation techniques and key inputs**
	30 September 2016	**31 December 2015**		
1) Financial assets as at FVTPL (see Note 21)	Equity securities listed on a stock exchange in Bosnia and Herzegovina: • During 2015 the Bank sold all financial assets at FVTPL	Equity securities listed on a stock exchange in Bosnia and Herzegovina: • During 2015 the Bank sold all financial assets at FVTPL	Level 1	Quoted bid prices in an active market.
2) Financial assets held for sale (see Note 20)	Equity securities listed on a stock exchange in Bosnia and Herzegovina: • Bosna Reosiguranje d.d. Sarajevo – KM 32 thousand	Equity securities listed on a stock exchange in Bosnia and Herzegovina: • Bosna Reosiguranje d.d. Sarajevo – KM 32 thousand	Level 1	Quoted bid prices in an active market.
	Debt securities listed on a stock exchange in Bosnia and Herzegovina: • Government of the Federation of BiH – KM 291 thousand	Debt securities listed on a stock exchange in Bosnia and Herzegovina: • Government of the Federation of BiH – KM 267 thousand	Level 1	Quoted bid prices in an active market.
	Equity securities listed on a stock exchanges in other countries: • Serbia - KM 58 thousand	Equity securities listed on a stock exchanges in other countries: • Serbia - KM 66 thousand	Level 1	Quoted bid prices in an active market

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

34. FAIR VALUE MEASUREMENT (CONTINUED)

34.2 Fair value of the Company'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.

	30 September 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and receivables:				
- loans to customers	53,280	59,405	62,269	67,595
Financial liabilities				
Financial liabilities held at amortised cost:				
- deposits of customers and other banks	128,893	130,958	132,809	130,995
- due to other banks and financial institutions	1,207	959	1,510	1,506

	Fair value hierarchy as at 30 September 2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and receivables:				
- loans to customers	-	59,405	-	59,405
	-	**59,405**	**-**	**59,405**
Financial liabilities				
Financial liabilities held at amortised cost:				
- deposits of customers and other banks	-	130,958	-	130,958
- due to other banks and financial institutions	-	959	-	959
Total	**-**	**131,917**	**-**	**131,917**

The fair value of financial assets and liabilities included in the above categories of Level 2 were determined according to generally accepted models of assessment based on an analysis of discounted cash flows, the discount rate as most important input data, which 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.

35. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved on behalf of the Management Board on 10 March 2017:

Hamid Pršeš
Director of BOR banka d.d.
Sarajevo - the successor
bank

PRIVREDNA BANKA SARAJEVO DD
1
SARAJEVO

Zijad Lugonić
Head of Finance of Privredna banka
Sarajevo d.d., before acquisition