PRIVREDNA BANKA SARAJEVO D.D. SARAJEVO

Financial statements for the year ended
31 December 2017 prepared in accordance with
International Financial Reporting Standards
and Independent Auditor's Report

This version of the report is a translation from the original, which was prepared in Bosnian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our financial reports and the accompanying audit report takes precedence over this translation.

Contents

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Responsibility for the financial statements

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

After making enquiries, the Management Board has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

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

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

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and must also; ensure that the financial statements comply with the Accounting and Audit Law in the Federation of Bosnia and Herzegovina. The Management Board is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board

Hamid Pršeš
President of the Management Board

PRIVREDNA BANKA SARAJEVO DD
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SARAJEVO

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

13 March 2018

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Independent Auditor's Report

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

Opinion

We have audited the accompanying financial statements of Privredna banka Sarajevo d.d. Sarajevo (the "Bank"), which comprise the balance sheet as at 31 December 2017, the income statement, statement of comprehensive income, the statement of cash flows, and the statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and their financial performance and their cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment losses on loans to and receivables from clients

Please refer to Note 3.a on pages 20 to 22 of the financial statements for the accounting policies, and Note 4 on pages 26 to 27 and page 32 for additional information respectively.

When there is objective evidence of impairment of loans to and receivables from clients, such as significant difficulties of the debtor, breach of the contractual terms, approving the credit relief to a debtor due to financial difficulties, certain initiation of a bankruptcy proceeding or financial reorganization of a debtor, disappearance of an active market or data that indicate measurable decrease of estimated future cash flows, the Bank assesses certain financial assets for impairment on an individual basis, and the remaining financial assets on a group basis.

Management applies judgment to assess the inputs they find relevant for the calculation of impairment losses on loans to and receivables from clients on individual basis including, but not limited to, financial position of the client, realization period and value of the collateral at the projected realization date, the expected cash flows and the current local and global economic conditions.

Key Audit Matters (continued)

Impairment losses on loans to and receivables from clients (continued)

For the group assessment of an impairment for incurred but not reported losses (IBNR), and specific provisions calculated on group basis, the Bank uses statistical models and historical data on the probability of events causing impairment, time required for recovery, and the total amount of incurred loss, adjusted for the Management's judgement on whether the current economic and credit conditions are such that it is probable that the actual losses will be higher or lower than those calculated based on historical data.

How our audit addressed the key audit matter

During the audit we gained an understanding of the Bank's provisioning process through the interviews with responsible personnel, and review of the policies and procedures to consider their adequacy, consistency of controls and employees' responsibilities. The aforementioned resulted in defining the adequate audit procedures to be able to address the risks associated with the impairment losses on loans to and receivables from clients.

Our audit procedures were focused on and included the following:

Operating effectiveness of controls

We tested the design and implementation of key controls and tested their operating effectiveness, which are related to testing of impairment losses, with the special focus on:

- control of the counter of days to maturity and probability of default;
- control of input of data in the system on approved loans to clients, and value of collateral;
- control of the calculation of parameters used for calculation of impairment losses on a group basis.

Automatic controls

We tested the design and implementation and tested operating efficiency of automatic controls identified as significant for our evidence procedures and testing impairment losses. Testing of these controls created a basis for selecting a sample and further testing of impairment of individual loans to and receivables from clients.

Individual assessment of impairment losses

Based on the reconciled population of loans to clients classified as *"individually impaired"* with synthetic records, we determined the sample for our evidence procedures using statistical solutions provided by audit methodology, and our own judgement based on previous knowledge of the client's portfolio and monitoring the most significant movements from the status of performing to non-performing clients.

We performed our evidence testing on the selected sample to assess and determine the existence of potential indicators of the fact that certain loans and receivables are inadequately or redundantly provisioned. In this process, we used our judgement to determine parameters for calculation of impairment losses on loans and compared our own calculation with the impairment losses on loans calculated by the Bank.

Key Audit Matters (continued)

How our audit addressed the key audit matter (continued)

Individual assessment of impairment losses (continued)

We have analysed the financial positions of the clients, adequacy of the forecasted cash flows compared to actual ones and historical data, the quality of collateral and the adequacy of its assessment, all in accordance with stipulated internal procedures and Bank's methodology. We enquired any breaches of contracts and/or changes from the original terms and conditions of the contract. We additionally considered the impact of the current local and global economic conditions, as well as the group of related parties, and other facts that may affect the recoverability of the loans in the sample. For the same sample of loans, we assessed loan loss provisions that the Bank calculates in accordance with regulations of the Banking Agency of Federation of BiH ("FBA") depending on days overdue, financial position of a debtor and collateral, following the percentages of provisions for the purpose of their adequacy assessment.

Collective assessment of impairment losses

During our audit, we have gained an understanding of the Bank's provisioning process, methodology and parameters used in the calculation of collective impairment losses on loans in order to evaluate the overall adequacy of the collective impairment level.

In accordance with internal methodology, we selected a sample of clients, for which we tested the adequacy of recognized impairment losses on a group basis following the requirements of the Bank's methodological framework and testing the Bank's internal model in assessing the parameters for Incurred But Not Reported (IBNR) provisioning. The model was tested by a retrospective review.

We recalculated provisions for the same sample that the Bank calculates in accordance with regulations of the Banking Agency of Federation of BiH depending on days overdue, financial position of a debtor and collateral, as well as stipulated percentages of provisions for the purpose of their adequacy assessment.

In addition, we tested the adequacy of Bank's disclosure of impairment of given loans and related credit risks in Note 32 to the financial statements.

Responsibilities of the Management and Supervisory Boards for the Financial Statements

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

In preparing the financial statements, the Management Board is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Supervisory Board is responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence in relation to financial information of entities or operating activities within the Bank to express an opinion on the financial statements. We are responsible for management, oversight and performance of audit of the Bank. We are exclusively responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In accordance with stipulated audit procedures, we communicated with the Supervisory Board and the Audit Board. As at the date of this report, we held timely meetings with the members of the Supervisory Board and Audit Board and communicated all matters relevant for our audit of the financial statements of the Bank.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our independent auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Sabina Softić.

Deloitte d.o.o.

Sead Bahtanović, director and licensed auditor

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

Sabina Softić, partner and licensed auditor

Sarajevo, Bosnia and Herzegovina

13 March 2018

Income statement
for the year ended 31 December 2017
(all amounts are expressed in thousands of KM, unless otherwise stated)

	Notes	2017	2016
Interest and similar income	5	11,119	9,706
Interest expenses	6	(3,605)	(3,051)
Net interest income		**7,514**	**6,655**
Fee and commission income	7	6,213	2,234
Fee and commission expenses		(1,383)	(646)
Net fee and commission income		**4,830**	**1,588**
Other gains / (losses), net	8	89	(766)
Other operating income	12	2,501	475
Operating income		**14,934**	**7,952**
Personnel expenses	9	(4,875)	(3,722)
Depreciation and amortisation expenses	22	(1,317)	(879)
Other administrative expenses	10	(4,669)	(3,376)
Operating expenses		**(10,861)**	**(7,977)**
PROFIT/ (LOSS) BEFORE IMPAIRMENT LOSSES, PROVISIONS AND TAXATION		**4,073**	**(25)**
Impairment losses and provisions	11	(4,268)	1,899
Collected written-off receivables		734	792
PROFIT BEFORE TAXATION		**539**	**2,666**
Income tax expense	13	(187)	(345)
NET PROFIT		**352**	**2,321**
Earnings per share – basic and diluted (in KM)	14	**1.59**	**9.70**

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

Statement of comprehensive income
for the year ended 31 December 2017

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

	Notes	2017	2016
Net profit		**352**	**2,321**
Other comprehensive income:			
Items that will be reclassified subsequently to profit and loss when specific conditions are met:			
Net change in fair value of financial assets available-for-sale	19	39	(4)
		39	***(4)***
TOTAL COMPREHENSIVE INCOME		**391**	**2,317**

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

Balance sheet
as of 31 December 2017

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

	Notes	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	15	51,701	39,562
Obligatory reserve with Central Bank of BiH	16	24,213	37,269
Placements with other banks	17	37,011	33,306
Loans to customers, net	18	214,361	202,479
Financial assets available-for-sale	19	490	438
Financial assets held-to-maturity	20	3,562	2,987
Other assets and receivables, net	21	2,599	1,177
Tangible and intangible assets	22	29,680	30,827
TOTAL ASSETS		**363,617**	**348,045**
LIABILITIES			
Due to financial institutions	23	906	13,856
Due to the Government of FBiH	24	36,142	35,483
Due to customers	25	265,081	236,241
Provisions	26	2,269	2,865
Other liabilities	27	2,518	3,290
Total liabilities		**306,916**	**291,735**
EQUITY			
Share capital	28	37,041	37,041
Share premium		4,629	6,125
Other reserves		-	10
Regulatory reserves		1,476	1,476
Revaluation reserve for property		6,996	7,086
Revaluation reserve for investments		35	(4)
Retained earnings		6,524	4,576
Total equity		**56,701**	**56,310**
TOTAL LIABILITIES AND EQUITY		**363,617**	**348,045**

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

Signed on behalf of the Bank on 13 March 2018:

Hamid Pršeš
President of the Management Board

PRIVREDNA BANKA SARAJEVO d.d.
SARAJEVO

Bedina Jusičić-Musa
Member of the Management Board

Statement of cash flows
for the year ended 31 December 2017

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

	2017	2016
Operating activities		
Profit before taxation	539	2,666
Adjustments:		
Depreciation and amortization	1,317	879
Impairment losses and provisions, net	4,268	(1,899)
Effect of changes in fair value of financial assets at FVTPL recognized in the income statement	-	1,214
Loss on disposal of equipment	(198)	(316)
Foreign exchange losses / (gains), net	118	(120)
Interest income recognized in the income statement	(11,119)	(9,706)
Interest expense recognized in the income statement	3,605	3,051
Changes in assets and liabilities:		
Decrease in obligatory reserve with Central Bank of BiH	13,056	8,895
Net increase of placements with other banks	(3,569)	(22,805)
Net (increase) / decrease in loans to customers, before allowance	(14,125)	2,989
Net (increase) / decrease in other assets and receivables	(1,410)	3
Net increase / (decrease) liabilities to customers	28,840	(23,587)
Net decrease in other liabilities	(1,089)	(4,796)
	20,233	*(43,532)*
Interest paid	(3,605)	(3,051)
Interest received	8,563	9,304
Income tax paid	(187)	(357)
NET CASH FROM / (USED IN) OPERATING ACTIVITIES	**25,004**	**(37,636)**
Investing activities		
Purchases of tangible and intangible assets	(200)	(739)
Increase in assets available-for-sale	(9)	-
Proceeds from sale of tangible and intangible assets	228	320
Cash acquired by bank acquisition	-	65,258
Purchases of financial assets held-to-maturity	(593)	(2,590)
NET CASH (USED IN) / FROM INVESTING ACTIVITIES	**(574)**	**62,249**
Financing activities		
Repayment of liabilities to financial institutions, net	(12,950)	(10,177)
Increase / (decrease) in liabilities to the Government of FBiH	659	(4,881)
Dividends paid	-	(943)
NET CASH USED IN FINANCING ACTIVITIES	**(12,291)**	**(16,001)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**12,139**	**8,612**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	**39,562**	**30,950**
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	**51,701**	**39,562**

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

Statement of changes in equity
for the year ended 31 December 2017

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

	Share capital	Share premium	Other reserves	Regulatory reserves	Revaluation reserve for properties	Revaluation reserve for investments	Retained earnings	Total
Balance as of 31 December 2015	**31,366**	**-**	**10**	**1,465**	**7,200**	**-**	**4,580**	**44,621**
Net profit	-	-	-	-	-	-	2,321	2,321
Other comprehensive income	-	-	-	-	-	(4)	-	(4)
Total comprehensive income	-	-	-	-	-	*(4)*	*2,321*	*2,317*
Effects of merger (Note 29)	5,675	6,125	-	11	-	-	(1,496)	10,315
Transfer (from) / to	-	-	-	-	(114)	-	114	-
Allocation of dividends	-	-	-	-	-	-	(943)	(943)
Balance as of 31 December 2016	**37,041**	**6,125**	**10**	**1,476**	**7,086**	**(4)**	**4,576**	**56,310**
Net profit	-	-	-	-	-	-	352	352
Other comprehensive income	-	-	-	-	-	39	-	39
Total comprehensive income	-	-	-	-	-	*39*	*352*	*391*
Transfer (from) / to	-	(1,496)	(10)	-	(90)	-	1,596	-
Balance as of 31 December 2017	**37,041**	**4,629**	**-**	**1,476**	**6,996**	**35**	**6,524**	**56,701**

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

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

1. GENERAL

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

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

Principal activities of the Bank are:

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

The Bank considers that it operates in a single business segment, and a single geographical segment, that is the provision of banking services in Bosnia and Herzegovina.

The registered address of the Bank is Obala Kulina Bana 18, 71000 Sarajevo. As at 31 December 2017, the Bank had 158 employees (31 December 2016: 137 employees).

Supervisory Board

Aziz Šunje	Chairman
Ademir Abdić	Member
Džejna Bajramović	Member
Alen Gradaščević	Member
Mehmet Siner	Member (since 12 June 2017)
Hasan Đozo	Member (until 12 June 2017)

Management Board

Hamid Pršeš	President of the Management Board (since 12 March 2018) Director (until 12 March 2018)
Edin Kreštalica	Member of the Management Board (since 12 March 2018) Executive director for corporate sector (until 12 March 2018)
Kemal Džabija	Member of the Management Board (since 12 March 2018) Executive director for retail sector (until 12 March 2018)
Bedina Jusičić Musa	Member of the Management Board (since 12 March 2018) Executive director for risk management (until 12 March 2018)

Audit Committee

Muhamed Hubanić	Chairman
Tayyar Ozerdem	Member
Senaid Zajimović	Member
Dragan Prusina	Member
Hasan Đozo	Member (since 31 July 2017)
Tarik Karić	Member (until 31 July 2017)

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and Interpretations effective in the current period

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

- Amendments to IAS 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 IFRS 12 due to "Improvements to IFRSs (cycle 2014 - 2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

The adoption of these standards, amendments and interpretations has not led to any changes in the Bank's accounting policies.

2.2 Standards and Interpretations in issue not yet adopted

At the date of authorization of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018);
- IFRS 15 "Revenue from Contracts with Customers" and further amendments (effective for annual periods beginning on or after 1 January 2018);
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019);
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021);
- 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);
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014 - 2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

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

- Amendments to various standards due to "Improvements to IFRSs (cycle 2015 - 2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018);
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019);

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

2.3 IFRS 9: "Financial Instruments"

IFRS 9, which became effective on 1 January 2018, required preparation activities during 2017. For the purpose of IFRS 9 implementation, the Bank conducted the following activities:

- Engaged a consultant for preparation of IFRS 9 methodology and IFRS 9 Impact Analysis.
- Engaged an external provider of application solution for the calculation of impairment under IFRS 9

After the analysis of Bank's data, and in accordance with the contracted engagement, the Bank delivered the following documents to the Bank:

- Methodology
- Classification and Valuation – Gap Analysis
- Impact Analysis

Methodology

The methodology meets all the IFRS 9 criteria by applying the ECL (expected credit losses) model on debt instruments, including off-balance sheet receivables in the form of financial guarantees by applying the CCF (Credit Conversion Factor).

There are two bases of measurement of expected credit losses:

- 12-month ECL applicable to all items when there is no significant increase of credit risk (Level 1),
- Lifetime ECL (Level 2 and Level 3), which indicates significant increase of credit risk compared to initial recognition.

Calculation of impairment is based on:

- Portfolio segmentation (corporate loans, retail housing loans, other retail loans),
- DPD bucket (days overdue divided into buckets from 0-7),
- Determined risk level (Level 1, Level 2, Level 3),
- Assessment method (group/individual),

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.3 IFRS 9: "Financial Instruments" (continued)

Methodology (continued)

The Bank retained its previous approach to determine the materiality threshold relative to portfolio assessment on individual basis:

- Over KM 25 thousand for retail
- Over KM 50 thousand for corporate
- KM 0 for state institutions and banks.

The definition of default status remains unchanged (default exposures are classified as Level 3).

In addition to basic indicators of default, 90 and more days overdue, CDE FBA classification, the Bank assesses certain parameters from the financial statements that imply default when basic indicators are not met.

Counter of days overdue also retains its previous definition, including materiality thresholds of due receivables for the initiation of counting.

For the purpose of group assessment of impairment, the PD, LGD and EAD parameters are determined.

In assessing PD, the following are made: calculation of transitional matrices, derivation of lifetime cumulative PD, calculation of lifetime marginal PD and its forward-looking adjustment:

LGD is calculated for portfolio segment and DPD bucket for all exposures, without taking into account their potential coverage by collateral, and based on the transition of exposures through DPD buckets over the 5 year period.

EAD (exposure at default) depends on the characteristics of the financial instrument. Lifetime EAD curve is used, which represents a portion of net exposure less present value of cash flows from collateral, which is decreased over time depending on contractual payments.

EIR (effective interest rate) is used for discounting cash flows.

The Bank expects that the calculation of the impact on impairment due to transition to IFRS 9 as at 31 December 2017 will be completed by mid-March 2018, after the application solution developed by the external service provider is implemented as a whole.

For the purpose of various IFRS 9 impact assessments, and until ensuring the system solution for the calculation of impairment under IFRS 9, the Bank uses the document Impact Analysis delivered by the engaged consultant.

Classification and valuation

Loans / guarantees – valuation at amortized cost. The Bank performed an SPPI testing on both the level of financial instruments and on the level of business model.

Securities held to maturity – valuation at amortized cost.

Securities held for trading – FVOCI.

Other exposures – valuation at amortized cost.

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

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.3 IFRS 9: "Financial Instruments" (continued)

Impact analysis

As at 31 December 2017, and based on the conducted Impact Analysis by the engaged consultant and Bank's delivered data for loan-guarantee portfolio covering the historical period of 5 years, the following IFRS 9 impact has been estimated:

		Impairment		
Type of assessment	**Exposure**	**IFRS 9**	**IAS 39**	**Difference**
Group	203,403	15,566	11,667	3,899
Individual	92,440	51,919	51,919	-
Total	**295,843**	**67,485**	**63,586**	**3,899**
Portfolio type				
Corporate	252,555	62,658	60,003	2,655
Housing loans	10,528	700	617	83
Other loans	32,760	4,127	2,966	1,161
Total	**295,843**	**67,485**	**63,586**	**3,899**
Risk level				
Level 1	182,340	8,491	5,828	2,663
Level 2	16,625	3,183	1,947	1,236
Level 3	96,878	55,811	55,811	-
Total	**295,843**	**67,485**	**63,586**	**3,899**

The largest IFRS 9 impact is expected on Level 2 exposures. The majority of the total impact is related to corporate segment, and other retail loans.

In addition, the Bank conducted an assessment of the impact of application of the new standard on other financial instruments held at amortized cost, which are not related to the loan-guarantee portfolio. These exposures mainly encompass bank's cash in the account at the Central Bank of BiH (funds exceeding the obligatory reserve), exposures on placements with other banks, exposures on state bonds and other securities, and a negligible amount of investments in other legal entities. The estimated effect on the financial statements for the year ended 31 December 2017 amounts to KM 821 thousand.

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board.

Going concern

The financial statements have been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

Basis of presentation

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

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

Fair value is the price that would be received to sell or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

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

- Level 1 inputs are quoted prices (uncorrected) on active markets for identical assets or liabilities that the Bank may access on the measurement date; fair value indicators are those derived from quoted prices in active markets
- Level 2 inputs, other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are not observable inputs for the asset or liability.

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

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

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

Basis of presentation (continued)

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

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

Interest income and expense

Interest income / expense is recognized in the income statement for the period that belongs to, at the applicable effective interest rate, which is the rate that exactly discounts estimated future cash receipts / payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset / liability, or, where appropriate, a shorter period.

Fee and commission income and expense

Fees and commissions consist mainly of fees earned on domestic and foreign payment transactions, and fees for loans and other credit instruments issued by the Bank.

Fees for payment transactions are recognized in the period when services are rendered.

Employee benefits

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

Retirement severance payments

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

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

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

Taxation

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

Current income tax

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

Deferred income tax

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

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Bank has the ability and intention to settle on a net basis.

Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash, balances with the Central Bank of Bosnia and Herzegovina ("CBBH"), current accounts with other banks and cash at hand.

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

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

Financial instruments

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

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

a) Financial assets

Financial assets are recognized and derecognized on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the instrument within the timeframe established by the market concerned.

Financial assets are classified into the following specified categories: "at fair value through profit or loss" (FVTPL), "available-for-sale" (AFS), "held-to-maturity investments", and "loans and receivables".

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Currently, the Bank has no financial assets at FVTPL.

Effective interest rate method

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

Income is recognized on an effective interest basis for financial instruments: "held-to-maturity investments" and "loans and receivables".

Loans and receivables

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

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

Held-to-maturity investments

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

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

Financial instruments (continued)

a) Financial assets (continued)

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

Listed shares held by the Bank that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in the Note 33. Gains and losses arising from changes in fair value are recognized directly in equity in the revaluation reserve for investments with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the revaluation reserve for investments is included in profit or loss for the period.

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

Impairment of financial assets

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

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

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

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

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

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

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

Financial instruments (continued)

a) Financial assets (continued)

Impairment of financial assets (continued)

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

Derecognition of financial assets

Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank continues to recognize the financial asset.

b) Financial liabilities and equity instruments issued by the Bank

Classification as debt or equity

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

Equity instruments

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

Financial guarantee contract liabilities

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

- the amount of the obligation under the contract, as determined in accordance with IAS 37: "Provisions, Contingent Liabilities and Contingent Assets";
- and the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out at above.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

<u>*Other financial liabilities*</u>

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

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

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

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

Financial instruments (continued)

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

Financial liabilities (continued)

Derecognition of financial liabilities

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

Property and equipment

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

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

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use.

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

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

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

	2017	**2016**
Buildings	57 to 77 years	57 to 77 years
Computers	3 years	3 years
Vehicles	7 years	7 years
Furniture and other office equipment	7 years	5 to 10 years

Impairment

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

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

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

Property and equipment (continued)

Impairment (continued)

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

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

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

Intangible assets

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

Foreign currency translation

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

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

31 December 2017	1 EUR = KM 1.95583	1 USD = KM 1.630810	1 KWD = KM 5.346652	1 CHF = KM 1.671364
31 December 2016	1 EUR = KM 1.95583	1 USD = KM 1.855450	1 KWD = KM 6.006354	1 CHF = KM 1.821240

Provisions

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

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

Provisions (continued)

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

Equity and reserves

Share capital

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

Regulatory reserves for credit losses

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

Retained earnings

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

Revaluation reserve for property

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

Revaluation reserve for investments

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

Dividends

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

Earnings per share

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

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

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

During 2017 there were no dilution effects.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies, which are described in Note 3, the Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

Useful lives of property and equipment

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

Impairment losses on loans and receivables

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

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

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

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

In assessing collective impairment the following guidelines are used:

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

As at 31 December 2017, the Bank reconciled its Internal impairment methodology with the prescriptions of the Banking Agency in relation to correction of impairment calculation in cases of full collateral coverage for default items in a manner that future interest is excluded from the calculation. In addition. Recommendations from the Asset Quality Review (AQR) from 2016 before the status change have been implemented, which are related to introduction of an additional quantitative criterion for default status. The changes resulted in increase in impairment of default items with the effect of KM 1.9 million (KM 1.6 million based on cases of full coverage of default items and KM 357 thousand by acting based on AQR recommendations).

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

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

Key sources of estimation uncertainty (continued)

Impairment losses on loans and receivables (continued)

Impairment losses on loans and receivables and provisions for off-balance-sheet exposure (continued)

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

5. INTEREST AND SIMILAR INCOME

	2017	2016
Interest on corporate loans	8,817	8,468
Interest on retail loans	2,157	1,210
Interest on financial assets held-to-maturity	108	23
Interest on placements with other banks	4	3
Other interest income	33	2
	11,119	**9,706**

6. INTEREST EXPENSES

	2017	2016
Interest on retail deposits	1,520	791
Interest on corporate deposits	1,075	1,241
Interest on the Government of FBiH funds	722	791
Interest on borrowings from financial institutions	63	148
Other interest expenses	225	80
	3,605	**3,051**

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

7. FEE AND COMMISSION INCOME

	2017	2016
Fees from payment transactions	4,515	1,439
Fees from off-balance sheet transactions	446	435
Fees from conversion transactions	547	143
Fees from managed funds	91	85
Other fee and commission income	614	132
	6,213	**2,234**

8. OTHER GAINS / (LOSSES), NET

	2017	2016
Impairment of shares of Privredna banka Sarajevo d.d. Sarajevo before merger (Note 19)	-	(1,214)
Gains on disposal of fixed assets	198	316
Foreign exchange (losses) / gains, net	(118)	120
Other gains	9	12
	89	**(766)**

9. PERSONNEL EXPENSES

	2017	2016
Net salaries	2,375	1,720
Taxes and contributions	1,856	1,319
Meal allowance and transport	349	280
Other	295	403
	4,875	**3,722**

The average number of employees of the Bank was 149 during the year ended 31 December 2017, and 88 during the year ended 31 December 2016.

10. OTHER ADMINISTRATIVE EXPENSES

	2017	2016
Service costs	1,429	1,357
Memberships	507	217
Advertising and entertainment	414	169
Maintenance	401	357
Energy costs	393	156
Telecommunication	277	128
Material costs	230	84
Taxes and contributions	214	132
Fees to the members of Supervisory Board and Audit Committee	105	108
Insurance	85	57
Other costs	614	611
	4,669	**3,376**

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

11. IMPAIRMENT LOSSES AND PROVISIONS

	Notes	2017	2016
Impairment losses on placements with other banks, net	17	(112)	103
Impairment losses on loans, net	18	(4,435)	1,496
Allowance for impairment losses on financial assets available for sale, net	19	-	(3)
Allowance for impairment losses on financial assets held to maturity, net	20	(18)	-
Allowance for impairment losses on other assets and receivables, net	21	18	(55)
Release of provisions for commitments and contingencies, net	26	279	358
		(4,268)	**1,899**

12. OTHER INCOME

	2017	2016
Income from collection of receivables from bankruptcy estate (Jugobanka a.d. Beograd)	1,125	-
Income from discount of liabilities (early repayment) (Note 23)	584	-
Rent income	411	211
Income from reconciliation of ATM balances	194	-
Deferred income	75	224
Other income	112	40
	2,501	**475**

13. INCOME TAX EXPENSE

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

	2017	2016
Current income tax	187	329
Deferred income tax	-	16
	187	**345**

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

	2017	2016
Profit before income tax	**539**	**2,666**
Tax calculated at rate of 10%	54	267
Effects of non-deductible expenses	133	62
Current income tax	**187**	**329**
Effective tax rate	**34.69%**	**12.34%**

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

14. EARNINGS PER SHARE

	2017	2016
Net profit	352	2,321
Less: preference dividends	-	(169)
	352	***2,152***
Weighted average number of ordinary shares	221,784	221,784
Basic earnings per share (in KM)	**1.59**	**9.70**

15. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Current account with CBBH	45,258	33,896
Cash at hand in foreign currencies	2,428	2,556
Cash at hand in domestic currency	2,708	1,791
Cash at ATMs	1,307	1,319
	51,701	**39,562**

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

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

	31 December 2017	31 December 2016
Obligatory reserve with CBBH	24,213	23,906
Specific reserve by Law on banks, article 42 a	-	13,363
	24,213	**37,269**

In accordance with Law on banks (article 42 a.), if it receives payments of public revenues and budgetary deposits, the Bank is obligated to hold 50% of daily balance of received payments from public funds, deposits and transactions for budgetary and off budgetary funds in cash as specific reserve in CBBH.

Pursuant to the new Law on Banks which came into force in April 2017, banks are no longer required to allocate funds to the special reserves under Article 42 a.

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

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

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

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

17. PLACEMENTS WITH OTHER BANKS

	31 December 2017	31 December 2016
A vista deposits in foreign currencies:		
Raiffeisen Zentralbank AG, Austria	13,264	10,192
VIPA d.d. Ljubljana, Slovenia	7,986	1,083
Unicredit bank Austria, Vienna, Austria	7,686	12,638
Zagrebačka banka d.d., Croatia	3,779	4,132
UniCredit bank S.p.A Milano, Italy	3,719	1,430
Nordea bank AB Stocholm, Sweden	194	51
Commonwealth bank Sydney, Australia	14	23
Bawag P.S.K. Vienna, Austria	-	2,222
Zveza banka Klagenfurt, Austria	-	70
DNB Norbank ASA Oslo, Norway	-	5
	36,642	***31,846***
A vista deposits in domestic currency:		
Bobar Banka a.d. Bijeljina	2,000	4,250
Sparkasse Bank dd BiH	176	154
	2,176	***4,404***
Term deposits in foreign currencies:		
Union bank of Switzerland, Switzerland	407	456
Raiffeisen Bank International AG, Austria	-	928
	407	***1,384***
Term deposits in domestic currency		
Sparkasse Bank dd BiH	25	50
	25	**50**
Total placements before allowance for impairment losses	**39,250**	**37,684**
Less: Allowance for impairment losses		
Bobar banka a.d. Bijeljina	(2,000)	(4,250)
VIPA d.d. Ljubljana, Slovenia	(160)	(22)
Zagrebačka banka d.d., Croatia	(75)	(83)
Sparkasse bank dd BiH	(4)	(4)
Raiffeisen Bank International AG, Austria	-	(18)
Zveza banka Klagenfurt, Austria	-	(1)
	(2,239)	***(4,378)***
	37,011	**33,306**

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

17. PLACEMENTS WITH OTHER BANKS (CONTINUED)

Expected to be recovered:		
- no more than twelve months after the reporting period	38,843	37,228
- more than twelve months after the reporting period	407	456
Less: Allowance for impairment losses	(2,239)	(4,378)
	37,011	**33,306**

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

	2017	2016
	% p.a.	**% p.a.**
Placements in EUR	-0.50 do -0.10	-0.10 – 0.50
Placements in USD	0.00	0.20 – 0.40
Placements in KWD	0.00	0.00 – 0.00
Placements in SEK	-1.00 od -0.50	0.30 – 0.50
Placements in CHF	-1.00 od -0.55	0.00

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

	2017	2016
Balance at beginning of the year	**4,378**	**2,544**
Effects of acquisition (Note 29)	-	3,187
Increase / (decrease), net (Note 11)	112	(103)
Write-offs	(2,250)	(1,250)
Forex differences	(1)	-
Balance at end of the year	**2,239**	**4,378**

18. LOANS TO CUSTOMERS, NET

	31 December 2017	31 December 2016
Short-term loans (including current portion of long-term loans):		
Corporate loans	63,943	58,746
Retail loans	1,477	1,623
Current portion of long-term loans	86,946	86,542
	152,366	*146,911*
Long-term loans (excluding current portion):		
Corporate loans	171,586	173,268
Retail loans	41,632	29,133
Current portion of long-term loans	(86,946)	(86,542)
	126,272	*115,859*
Gross loan receivables	***278,638***	***262,770***
Less: Long-term accrued income	(1,177)	(1,254)
Less: Allowance for impairment losses based on individual assessment	(55,312)	(52,222)
Less: Allowance for impairment losses based on group assessment	(7,788)	(6,815)
	(63,100)	***(59,037)***
	214,361	**202,479**

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

18. LOANS TO CUSTOMERS, NET (CONTINUED)

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

Long-term accrued income

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

	31 December 2017	31 December 2016
Ministry of Finance of FBiH	962	1,013
Former Privredna banka Sarajevo d.d. Sarajevo (repurchased loans)	215	239
Accrued income – Fenix d.o.o. Kladanj	-	2
	1,177	**1,254**

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

	2017	2016
Balance at beginning of the year	**59,037**	**23,137**
Increase / (decrease), net (Note 11)	4,435	(1,496)
Effects of acquisition (Note 29)	-	45,638
Write-offs	-	(8,136)
Acquired assets	(8)	-
Forex differences	(364)	(106)
Balance at end of the year	**63,100**	**59,037**

Weighted average interest rate can be presented as follows:

	31 December 2017	31 December 2016
Corporate	2.10% - 12.00%	2.00% - 11.00%
Retail	2.85% - 13.99%	2.85% - 13.99%

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

18. LOANS TO CUSTOMERS, NET (CONTINUED)

Analysis of gross loan receivables by industry:

	31 December 2017	31 December 2016
Trade	66,556	58,177
Individuals	43,092	30,763
Services, finance sector, sport and tourism	20,146	24,266
Construction	20,700	22,555
Agricultural, forestry, mining and energy	79,764	15,081
Transportation and telecommunication	4,803	4,412
Administration and other public institutions	863	629
Other	40,744	105,024
Interest	1,970	1,863
	278,638	**262,770**

Amounts presented in the table above include outstanding principal increased by interest receivables and reduced by origination fees collected in advance, as of 31 December 2017 and 31 December 2016.

19. FINANCIAL ASSETS AVAILABLE-FOR-SALE

	Industry	% of ownership	31 December 2017	31 December 2016
Equity securities:				
JUBMES Banka a.d. Belgrade, Serbia	Banking	0.29	97	55
Securities' Register of FBiH d.d. Sarajevo	Capital market	2.75	59	59
Bosna Reosiguranje d.d. Sarajevo	Insurance	0.51	32	32
Bamcard d.d. Sarajevo	Capital market	0.11	3	3
			191	***149***
Debt securities:				
Bonds of FBiH Government	Government	-	302	292
			302	***292***
Less: Impairment, net			(3)	(3)
			490	**438**

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

	2017	2016
Balance at beginning of the year	**438**	**1,893**
Unrealized gain on fair value adjustment	39	(4)
Bonds increase based on discount	9	-
Forex differences	4	-
Effects of acquisition (Note 29)	-	381
Release of impairment losses (Note 11)	-	(3)
Booking out of investment in Privredna banka Sarajevo d.d., due to acquisition	-	(615)
Loss on disposal of shares of Privredna banka Sarajevo d.d. before merger recognized in profit or loss (Note 8)	-	(1,214)
Balance at end of the year	**490**	**438**

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

20. FINANCIAL ASSETS HELD-TO-MATURITY

Issuer	Maturity date	Annual interest	31 December 2017.	31 December 2016.
Ministry of Finance of FBiH	28 December 2019	2.99%	2,003	2,005
Ministry of Finance of FBiH	21 December 2021	3.42%	588	584
Ministry of Finance of FBiH	22 November 2022	4.20%	98	98
Sarajevo Canton	2 June 2020	3.42%	692	-
Sarajevo Canton	29 June 2020	3.02%	199	-
Ministry of Finance of FBiH	27 June 2017	6.10%	-	300
			3,580	**2,987**
Less: Impairment, net	(Note 11)		(18)	-
			3,562	**2,987**

21. OTHER ASSETS AND RECEIVABLES

	31 December 2017	31 December 2016
Receivable from check sent for collection	1,119	-
Precious metals	462	468
Receivables from FBiH Government for paid guarantee	368	368
Advances for fixed assets	333	-
Fees receivables	184	328
Prepaid expenses	182	183
Prepaid income tax	165	12
Other receivables	303	487
	3,116	**1,846**
Less: Impairment, net	(517)	(669)
	2,599	**1,177**

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

	2017	2016
Balance at the beginning of the year	**669**	-
Effects of acquisition (Note 29)	-	1,953
(Decrease) / increase, net (Note 11)	(18)	55
Write-offs	(134)	(1,339)
Balance at the end of the year	**517**	**669**

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

22. TANGIBLE AND INTANGIBLE ASSETS

	Land (at revalued amount)	Building (at revalued amount)	Equipment (at cost)	Software and licenses (at cost)	Assets in progress (at cost)	Total
COST / REVALUED AMOUNT						
At 31 December 2015	**360**	**11,830**	**2,777**	**1,287**	**37**	**16,291**
Effects of acquisition (Note 29)	355	32,857	4,404	1,877	17	39,510
Additions	-	-	-	-	739	739
Transfer (from) / to	-	-	438	308	(746)	-
Disposals	-	(4)	(1,509)	-	-	(1,513)
At 31 December 2016	**715**	**44,683**	**6,110**	**3,472**	**47**	**55,027**
Additions	-	-	-	-	200	200
Transfer (from) / to	-	4	89	140	(233)	-
Disposals	-	-	(356)	-	(13)	(369)
At 31 December 2017	**715**	**44,687**	**5,843**	**3,612**	**1**	**54,858**
ACCUMULATED DEPRECIATION						
At 31 December 2015	-	**78**	**1,947**	**1,115**	-	**3,140**
Effects of acquisition (Note 29)	-	16,074	3,928	1,688	-	21,690
Depreciation and amortization charge	-	300	341	238	-	879
Disposals	-	-	(1,497)	-	-	(1,497)
Corrections	-	-	(12)	-	-	(12)
At 31 December 2016	-	**16,452**	**4,707**	**3,041**	-	**24,200**
Depreciation and amortization charge	-	633	389	295	-	1,317
Disposals	-	-	(339)	-	-	(339)
At 31 December 2017	-	**17,085**	**4,757**	**3,336**	-	**25,178**
NET BOOK VALUE						
As at 31 December 2017	**715**	**27,602**	**1,086**	**276**	**1**	**29,680**
As at 31 December 2016	**715**	**28,231**	**1,403**	**431**	**47**	**30,827**

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

22. TANGIBLE AND INTANGIBLE ASSETS (CONTINUED)

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

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

The latest fair value measurements of the Bank's land and building was performed as at 31 December 2015. There was no fair value measurement of Bank's land and building during 2017 in accordance with the Bank's policy since the Management believes that there were no significant changes in fair value and that the carrying amounts of land and buildings recognized in the financial statements approximately correspond to their fair values. The fair value of the land was determined based on the income method and market comparable approach that reflects recent transaction prices for similar properties.

23. DUE TO FINANCIAL INSTITUTIONS

	31 December 2017	31 December 2016
Landesversicherungsanstalt Niederbayern-Oberpfalz, Germany	906	1,208
Ministry of Finance of FBiH (Sustainable Development Foundation – "ODRAZ")	-	12,648
	906	**13,856**
Maturity analysis:		
Within one year	302	2,925
In the second year	302	2,787
Third to fifth year	302	6,229
After five years	-	1,915
	906	**13,856**

Landesversicherungsanstalt Niederbayern-Oberpfalz, Germany

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

Ministry of Finance of FBiH (Sustainable Development Foundation – "ODRAZ")

On 27 September 2010, the Bank signed subordinated financing contract with the Ministry of Finance of the Federation of Bosnia and Herzegovina and Sustainable Development Foundation (ODRAZ). Initially, the funds have been approved by World Bank for the Project "Improving Finance Accessibility to Small and Medium Enterprises". Repayment of funds is reconciled with collection of approved loans to final customers (maximum granted period of 120 months). During 2011 and 2012, the Bank approved 25 loans to legal entities in accordance with loan terms defined by ODRAZ, at interest rate of 6M Euro Libor (from 4.5% to 5.5% p.a.). As of 30 December 2013, the Bank signed new subordinated contract with the Ministry of Finance of the Federation of Bosnia and Herzegovina and ODRAZ for the Project, with final date for withdrawal of funds as of 31 July 2017 and annual interest rate of 6M Euro Libor + 1%. As of 31 December 2016, the Bank approved and implemented 42 projects with the total value of KM 43,602 thousand, and all funds were used in accordance with their purpose.

23. DUE TO FINANCIAL INSTITUTIONS (CONTINUED)

Ministry of Finance of FBiH (Sustainable Development Foundation – "ODRAZ")

The Bank has not approved any loans from this credit line during 2017.

The Bank made an early repayment of these loans on 2 October 2017 in accordance with the information and instruction by the Ministry of Finance of FBiH in the amount of KM 9,524 thousand, with the corresponding interest for the period from 1 September to 1 October 2017 in the amount of KM 6 thousand. Income generated based on early repayment amounts to KM 584 thousand (Note 12).

24. LIABILITIES TOWARD GOVERNMENT OF FBIH (THE COUNTERVALUE FUND)

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

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

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

There were no changes in 2017 that would require new annexes to the Agreement for Fund Management of Japanese grant for Federation of Bosnia and Herzegovina (PVF). Additional available assets were withdrawn from the countervalue fund, from which loans to clients were placed with the countervalue of KM 4,750 thousand.

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

25. DUE TO CLIENTS

	31 December 2017	31 December 2016
Demand deposits:		
Individuals:		
In domestic currency	38,662	38,124
In foreign currencies	37,262	31,070
	75,924	*69,194*
Companies:		
In domestic currency	73,945	63,327
In foreign currencies	6,991	6,046
	80,936	*69,373*
	156,860	***138,567***
Term deposits:		
Individuals:		
In domestic currency	20,067	20,596
In foreign currencies	41,481	41,794
	61,548	*62,390*
Companies:		
In domestic currency	40,530	29,423
In foreign currencies	6,143	5,861
	46,673	*35,284*
	108,221	***97,674***
	265,081	**236,241**

Interest rate during the year can be presented as follows:

	2017	2016
Demand deposits in KM and foreign currencies	0.00% - 0.12%	0.00% - 0.13%
Short-term deposits	0.00% - 3.00%	0.3% - 2.45%
Long.term deposits	0.00% - 3.84%	1.2% - 5.5%

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

26. PROVISIONS

	Commitments and contingencies	Employee benefits	Court proceedings	Other provisions	Total
Balance as of 1 January 2016	**422**	**65**	**42**	**-**	**529**
Effects of acquisition (Note 29)	128	474	3,430	44	4,076
(Release of) / additional provisions recognized (Note 11)	85	(412)	(31)	-	(358)
Decrease due to payment	-	-	(1,382)	-	(1,382)
Balance as of 31 December 2016	**635**	**127**	**2,059**	**44**	**2,865**
Release of provisions (Note 11)	(210)	-	(25)	(44)	(279)
Decrease due to payment	-	-	(317)	-	(317)
Balance as of 31 December 2017	**425**	**127**	**1,717**	**-**	**2,269**

Contingent liabilities (Off-Balance sheet) as of 31 December 2017 were as follows:

	31 December 2017	31 December 2016
Performance guarantees	10,855	14,188
Payment guarantees	3,855	5,935
Unused approved loans	3,299	5,739
Bidding guarantees	176	-
	18,185	**25,862**

27. OTHER LIABILITIES

	31 December 2017	31 December 2016
Liabilities for paid funds for loans and cards	723	614
Liabilities for managed funds (Note 31)	394	163
Liabilities for unallocated proceeds	367	791
Liabilities for retirements earned abroad	223	103
Liabilities toward suppliers	216	223
Transfer accounts for enforced collection	99	370
Liabilities for client proceeds	69	99
Income tax liability	5	19
Liabilities for non-reconciled ATM balance	-	164
Liabilities for unpaid pensions from previous periods (1992)	-	71
Other	422	673
	2,518	**3,290**

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

28. SHARE CAPITAL

Share capital as of 31 December 2017 and 2016 was as follows:

	31. December 2017			31. December 2016		
	KM '000	Number of shares	%	KM '000	Number of shares	%
Ordinary shares						
Fabrika duhana Sarajevo d.d. Sarajevo	3,383	30,753	11.84%	3,383	30,752	11.84%
Pobjeda – Rudet d.d. Goražde	3,261	29,648	11.41%	2,806	25,509	9.82%
Hamid Piršeš	2,123	19,296	7.43%	2,148	19,526	7.52%
Halil Oković	1,798	16,341	6.29%	1,275	11,594	4.46%
Unis Fagas d.o.o. Sarajevo	1,788	16,257	6.26%	1,788	16,257	6.26%
Zijad Deljo	1,495	13,592	5.23%	1,420	12,907	4.97%
Hasan Đozo	1,290	11,728	4.51%	1,246	11,328	4.36%
Recep Ali Keydal	882	8,020	3.09%	-	-	-
AME doo Breza	849	7,721	2.97%	849	7,721	2.97%
Enisa Bekto	636	5,782	2.23%	-	-	-
Fond "Bošnjaci" Sarajevo	-	-	-	935	8,496	3.27%
Denge Yatirim Holding, Turska	-	-	-	882	8,020	3.09%
Others shareholders	11,073	100,664	38.74%	11,846	107,692	41.44%
	28,578	**259,802**	**100.00%**	**28,578**	**259,802**	**100.00%**
Preference shares						
ZIF CROBIH FOND d.d. Mostar	1,364	12,400	16.12%	1,364	12,400	16.12%
Enver Pršeš	1,133	10,299	13.39%	1,133	10,299	13.39%
Hamid Pršeš	1,041	9,462	12.30%	1,041	9,462	12.30%
Zijad Deljo	967	8,790	11.43%	967	8,790	11.43%
Hasan Đozo	789	7,175	9.33%	789	7,175	9.32%
Halil Oković	663	6,029	7.84%	-	-	-
Other shareholders	2,506	22,781	29.59%	3,169	28,810	37.44%
	8,463	**76,936**	**100.00%**	**8,463**	**76,936**	**100.00%**
	37,041	**336,738**	**100.00%**	**37,041**	**336,738**	**100.00%**

As at 31 December 2017 and 2016, the nominal value of all shares is 110 KM. The owners of preference shares have no guaranteed dividend. However, if dividend is declared, they have priority in actual receipt of dividend payments over ordinary shareholders. Preference shareholders also have preferential rights to return capital in case of liquidation. During 2017, a dividend of KM 2.20 per share – total dividend KM 169 thousand was paid to holders of preference shares.

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

With the aim of strengthening Bank's equity and adjusting credit concentrations in determined limits, BOR banka conducted activities for conversion of preference cumulative shares into ordinary shares. On 22 July 2016, BOR banka received Information from the Securities Registry on deletion of securities – preference cumulative shares and registration of new securities – ordinary shares. After the conversion of preference into ordinary (management) shares, the number of shares and shareholders' equity of BOR banka remained the same, equity in the amount of KM 31,366,060 is allocated to 208,210 ordinary shares with nominal value of KM 110 per share and 79.936 preference non-cumulative shares with nominal value of KM 110 per share. Share conversion increased core capital of BOR banka for KM 2,881 thousand and decreased supplementary capital for same amount.

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

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

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

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

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

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

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

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

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

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

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

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

30. RELATED PARTY TRANSACTIONS

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

	2017		**2016**	
	Income	**Expense**	**Income**	**Expense**
Shareholders	284	224	343	235
Member of Management Board and their family members	9	-	10	3
Member of Supervisory Board and their family members	9	-	21	52
	302	**224**	**374**	**290**

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

30. RELATED PARTY TRANSACTIONS (CONTINUED)

As of 31 December 2017, balances resulting from transactions with related parties include:

	31 December 2017		31 December 2016	
	Receivables	**Liabilities**	**Receivables**	**Liabilities**
Shareholders	8,538	14,918	4,606	9,059
Member of Supervisory Board and their family members	132	179	191	232
Member of Management Board and their family members	120	62	139	31
	8,790	**15,159**	**4,936**	**9,322**

Management Board and Supervisory Board remuneration

The remuneration of the members of Management Board and Supervisory Board during the year ended 31 December 2017 was as follows:

	2017	**2016**
Gross salaries of the members of Management Board	529	446
Other benefits of the members of Management Board	11	36
Fees to the members of Supervisory Board	59	61
	599	**543**

31. MANAGED FUNDS

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

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

	31 December 2017	**31 December 2016**
LOANS		
Individuals	16,811	18,112
Corporate	921	947
Total	**17,732**	**19,059**
LIABILITIES		
Government of Federation of Bosnia and Herzegovina	16,160	17,673
Managed loans of merged PBS	1,387	962
Government of Bosnia and Herzegovina	500	500
Construction Institute of Sarajevo Canton	79	87
Total	**18,126**	**19,222**
Current liabilities from managed funds activities (Note 27)	**(394)**	**(163)**

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

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

32. FINANCIAL INSTRUMENTS

a) Capital risk management

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

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

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

	31 December 2017	31 December 2016
Debt	302,129	285,580
Equity	55,225	54,834
Net debt to capital ratio	**5.47**	**5.21**

Debt is defined as due to financial institutions, due to the Government of the Federation of Bosnia and Herzegovina and due to customers as presented in detail in Notes 23, 24 and 25. Capital includes total share capital, share premium, other reserves, revaluation reserves and retained earnings.

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

FBA requires each bank to: (a) hold the minimum level of the share capital and the lowest level of net capital (regulatory capital) of KM 15 million, and (b) maintain a ratio of total regulatory capital to the risk-weighted asset at or above the minimum of 12%. After the acquisition of Privredna banka Sarajevo d.d. Sarajevo, the regulatory requirement for capital adequacy at the minimum of 14% is effective.

On 30 May 2015, FBA issued new Decision on minimum standards for capital management and capital hedge, effective for 2015). By this decision, the Bank's regulatory capital is divided into two tiers:

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

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

As of 31 December 2017 and 2016 the Bank complied with all of the externally imposed capital requirements to which it was subject. As of 31 December 2017 the adequacy of the Bank's capital amounts to 15,8% (2016: 15,29%).

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

32. FINANCIAL INSTRUMENTS (CONTINUED)

a) Capital risk management (continued)

	31 December 2017	31 December 2016
Core capital – Tier 1 capital		
Ordinary shares	37,041	37,041
Share premium	4,629	6,125
Retained earnings	6,172	3,640
Accumulated loss	-	(1,496)
Negative revaluation reserves	-	(3)
Less: Intangible assets	(277)	(478)
Total Core capital	**47,565**	**44,829**
Supplemental capital – Tier 2 capital		
Preference shares	-	-
General regulatory reserves under FBA rules	2,920	2,905
Net profit for the current year	-	-
Positive revaluation reserves	7,030	7,086
Total Supplemental capital	**9,950**	**9,991**
Deductions from capital		
Investments that exceed 5% of basic capital	-	-
Shortfall in regulatory reserves	(20,569)	(19,218)
	(20,569)	**(19,218)**
Net capital	**36,946**	**35,602**
Risk Weighted Assets (unaudited)	213,601	211,762
Weighted Operational Risk (unaudited)	19,942	21,025
Total weighted risk	**233,543**	**232,787**
Capital adequacy (%)	**15.82**	**15.29**

Capital adjustment plan

FBA published a new set of regulatory decisions on credit risk concentrations in the fourth quarter of 2017. Bank's regulatory or recognized capital becomes a basis of measurement, which means additional constraints in Bank's case due to a significantly lower amount of recognized capital compared to the core capital under previous regulations.

The Bank is compliant with all key regulatory constraints with respect to credit concentrations as at 31 December 2017.

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

32. FINANCIAL INSTRUMENTS (CONTINUED)

a) Capital risk management (continued)

Capital adjustment plan (continued)

As of 31 December 2017, the ratio "tangible assets / Core capital" amounted to 67.7%, which is not in accordance with Article 94 of the Law on Banks, which stipulates that Bank's total investments in fixed assets cannot exceed 40% of recognized core capital. The ratio increase resulted from acquisition of former Privredna banka Sarajevo d.d. Sarajevo. According to the control of implementation of FBA prescriptions (based on decisions no. 04-3-1937-6/16 of 7 June 2016 and 04-2-1937-9/16 of 3 August 2016), the Bank prepared the Plan for eliminating non-compliance of investments in fixed assets in December 2017. The Bank was given a deadline by the end of 2018 to reconcile the ratio of tangible assets and core capital in accordance with current legislation.

Management does not expect that the breach of the prescribed limit will a negative impact on Bank's business activities until the given deadline for reconciliation.

b) Significant accounting policies

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

c) Categories of financial instruments

	31 December 2017	31 December 2016
Financial assets		
Loans and receivables:	329,379	313,571
Cash and cash equivalents (including Obligatory reserves with CBBH)	*75,914*	*76,831*
Placements with other banks	*37,011*	*33,306*
Loans to customers, net	*214,361*	*202,479*
Other receivables	*2,093*	*955*
Financial assets available-for-sale	490	438
Financial assets held-to-maturity	3,562	2,987
	333,431	**316,996**
Financial liabilities		
At amortised cost:		
Due to financial institutions	*906*	*13,856*
Due to the Government of the Federation of Bosnia and Herzegovina	*36,142*	*35,483*
Due to customers	*265,081*	*236,241*
Other liabilities	*1,549*	*3,056*
	303,678	**288,636**

d) Financial risk management objectives

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

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

32. FINANCIAL INSTRUMENTS (CONTINUED)

e) Market risk

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

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

f) Foreign currency risk management

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

	KM	EUR	USD	CHF	KWD	Other currencies	Total
As of 31 December 2017							
ASSETS							
Cash and cash equivalents	49,273	1,185	329	533	-	381	51,701
Obligatory reserve with CBBH	24,213	-	-	-	-	-	24,213
Placements with other banks	196	30,191	2,518	3,604	-	502	37,011
Loans to customers, net	144,769	68,184	542	-	866	-	214,361
Financial assets available-for-sale	393	-	-	-	-	97	490
Financial assets held-to-maturity	2,590	972	-	-	-	-	3,562
Other receivables	953	20	1,120	-	-	-	2,093
Total	**222,387**	**100,552**	**4,509**	**4,137**	**866**	**980**	**333,431**
LIABILITIES							
Due to financial institutions	-	906	-	-	-	-	906
Due to the FBiH Government	36,142	-	-	-	-	-	36,142
Due to customers	158,434	97,421	4,397	4,030		799	265,081
Other liabilities	928	574	9			38	1,549
	195,504	**98,901**	**4,406**	**4,030**	**-**	**837**	**303,678**
As of 31 December 2016							
Total Monetary assets	**205,224**	**101,860**	**3,923**	**4,160**	**1,056**	**773**	**316,996**
Total Monetary liabilities	**177,046**	**102,683**	**4,018**	**4,138**	**-**	**751**	**288,636**

Foreign currency sensitivity analysis

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

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

32. FINANCIAL INSTRUMENTS (CONTINUED)

f) Foreign currency risk management (continued)

Foreign currency sensitivity analysis (continued)

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

	USD impact		CHF impact		KWD impact	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Profit / (loss)	10	8	11	2	87	116

g) Interest rate risk management

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

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

Interest rate sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Bank' gross result for the year ended 31 December 2017 would increase / decrease by KM 230 thousand (2016: increase / decrease by KM 234 thousand).

h) Credit risk management

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

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

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

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

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

32. FINANCIAL INSTRUMENTS (CONTINUED)

h) Credit risk management (continued)

Financial assets

	Total gross carrying amount	Unimpaired assets	Individually impaired assets	Individual impairment allowance	Collective impairment allowance	Total net carrying amount
31 December 2017						
Cash and accounts in banks	51,701	51,701	-	-	-	51,701
Obligatory reserve with CBBH	24,213	24,213	-	-	-	24,213
Placements with other banks	39,250	25,284	13,966	(2,000)	(239)	37,011
Loans to customers, net	277,461	1,584	275,877	(55,312)	(7,788)	214,361
Financial assets available-for-sale	493	399	94	-	(3)	490
Financial assets held-to-maturity	3,580	2,689	891	-	(18)	3,562
Other receivables	2,600	1,746	854	(441)	(66)	2,093
	399,298	**107,616**	**291,682**	**(57,753)**	**(8,114)**	**333,431**
31 December 2016						
Cash and accounts in banks	39,562	39,562	-	-	-	39,562
Obligatory reserve with CBBH	37,269	37,269	-	-	-	37,269
Placements with other banks	37,684	27,017	10,667	(4,250)	(128)	33,306
Loans to customers, net	261,516	1,605	259,911	(52,222)	(6,815)	202,479
Financial assets available-for-sale	441	347	94	-	(3)	438
Financial assets held-to-maturity	2,987	2,987	-	-	-	2,987
Other receivables	1,621	480	1,141	(635)	(31)	955
	381,080	**109,267**	**271,813**	**(57,107)**	**(6,977)**	**316,996**

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

32. FINANCIAL INSTRUMENTS (CONTINUED)

h) Credit risk management (continued)

Credit exposure and collateral

	Credit risk exposure		
	Net exposure	**Loan commitments / Guarantees**	**Estimated value of collateral**
31 December 2017			
Cash and cash equivalents	51,701	-	-
Obligatory reserve with CBBH	24,213	-	-
Placements with other banks	37,011	-	-
Loans to customers, net	214,361	18,158	485,161
Financial assets available-for-sale	490	-	-
Financial assets held-to-maturity	3,562	-	-
Other receivables	2,093	-	
	333,431	**18,158**	**485,161**
31 December 2016			
Cash and cash equivalents	39,562	-	-
Obligatory reserve with CBBH	37,269	-	-
Placements with other banks	33,306	-	-
Loans to customers, net	202,479	25,862	520,190
Financial assets available-for-sale	438	-	-
Financial assets held-to-maturity	2,987	-	-
Other receivables	955	-	-
	316,996	**25,862**	**520,190**

Estimated value of collateral

	31 December 2017	**31 December 2016**
Real estates and movable properties	464,012	506,658
Deposits	2,991	2,226
Other	18,158	11,306
Total	**485,161**	**520,190**

Arrears

	Total gross loan portfolio	**Impairment**	**Not due**	**Up to 30 days**	**31 – 90 days**	**91 – 180 days**	**181 – 270 days**	**over 270 days**
31 December 2017								
Corporate loans	235,529	59,523	151,196	1,389	4,554	1,018	712	76,660
Retail loans	43,109	3,577	39,879	81	95	56	158	2,840
Total	**278,638**	**63,100**	**191,075**	**1,470**	**4,649**	**1,074**	**870**	**79,500**
31 December 2016								
Corporate loans	231,941	55,330	151,379	3,007	716	1,048	1,100	74,691
Retail loans	30,829	3,707	27,815	118	64	39	78	2,715
Total	**262,770**	**59,037**	**179,194**	**3,125**	**780**	**1,087**	**1,178**	**77,406**

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

32. FINANCIAL INSTRUMENTS (CONTINUED)

i) Liquidity risk management

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

Liquidity and interest risk tables

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

Maturity for financial assets

	Weighted average effective interest rate	Less than 1 month	2 to 6 months	7 months to 1 year	2 to 5 years	Over 5 years	Total
31 December 2017							
Non-interest bearing	-	115,921	173	22	3,756	-	119,872
Fixed interest rate instruments	6.81%	36,108	30,850	31,047	91,471	52,033	241,509
Variable interest rate instruments	8.47%	53,013	3,849	3,263	16,128	3,275	79,528
		205,042	**34,872**	**34,332**	**111,355**	**55,308**	**440,909**
31 December 2016							
Non-interest bearing	-	708	-	-	-	438	1,146
Fixed interest rate instruments	7.32%	33,562	22,255	27,129	70,152	44,558	197,656
Variable interest rate instruments	8.40%	53,971	10,219	7,778	24,817	6,806	103,591
		88,241	**32,474**	**34,907**	**94,969**	**51,802**	**302,393**

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

Maturity for financial liabilities

	Weighted average effective interest rate	Less than 1 month	2 to 6 months	7 months to 1 year	2 to 5 years	Over 5 years	Total
31 December 2017							
Non-interest bearing	-	115,017	452	236	728	342	116,775
Fixed interest rate instruments	0.07%	40,639	15,324	22,700	33,952	35,715	148,330
Variable interest rate instruments	1.35%	1,330	9,295	11,565	15,307	222	37,719
		156,986	**25,071**	**34,501**	**49,987**	**36,279**	**302,824**
31 December 2016							
Non-interest bearing	-	91,969	323	115	292	-	92,699
Fixed interest rate instruments	2.50%	27,902	11,750	4,868	27,102	35,559	107,181
Variable interest rate instruments	2.30%	21,274	7,962	19,361	29,323	13,664	91,584
		141,145	**20,035**	**24,344**	**56,717**	**49,223**	**291,464**

The Bank expects to settle other liabilities from operating cash flows and proceeds from financial assets.

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

33. FAIR VALUE MEASUREMENT

33.1 Fair value of the Bank's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets / Financial liabilities	Fair value at the date		Fair value hierarchy	Valuation techniques and inputs
	31 December 2017	31 December 2016		
1) Financial assets available-for-sale (see Note 19)	Equity securities listed on the Stock Exchange in Bosnia and Herzegovina: • Bosna Reosiguranje d.d., Sarajevo – KM 32 thousand Equity securities listed on stock exchange in other countries: • JUBMES BANKA A.D. Belgrade, Serbia – KM 97 thousand Debt securities listed on the Stock Exchange in Bosnia and Herzegovina: FBiH Government – KM 302 thousand	Equity securities listed on the Stock Exchange in Bosnia and Herzegovina: • Bosna Reosiguranje d.d., Sarajevo – KM 32 thousand Equity securities listed on stock exchange in other countries: • JUBMES BANKA A.D. Belgrade, Serbia – KM 55 thousand Debt securities listed on the Stock Exchange in Bosnia and Herzegovina: FBiH Government – KM 292 thousand	Level 1	Prices quoted on an active market.
	Equity securities listed on the Stock Exchange in Bosnia and Herzegovina without trading: • Registar vrijednosnih papira FBiH d.d. Sarajevo – KM 59 thousand • BamCard d.d. Sarajevo – KM 3 thousand	Equity securities listed on the Stock Exchange in Bosnia and Herzegovina without trading: • Registar vrijednosnih papira FBiH d.d. Sarajevo – KM 59 thousand • BamCard d.d. Sarajevo – KM 3 thousand	Level 2	Discounted cash flow valuation technique, considering the last available rate on owned or similar equity securities as yield rate.

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

33. FAIR VALUE MEASUREMENT (CONTINUED)

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

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

	31 December 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial asset				
Loans and receivables:				
- Loans to customers, net	214,361	281,630	202,479	263,039
- Financial assets held to maturity	3,562	3,562	2,987	2,987
Financial payables:				
At amortized cost:				
- Due to customers and financial institutions	265,987	297,644	250,097	244,919

	Fair value hierarchy as of 31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial asset				
Loans and receivables:				
- Loans to customers	-	281,630	-	281,630
- Financial assets held to maturity	-	3,562	-	3,562
	-	**285,192**		**285,192**
Financial payables:				
At amortized cost:				
- Due to customers, other banks and financial institutions	-	297,644	-	297,644
	-	**297,644**	-	**297,644**

The fair values of the financial assets and financial liabilities included in the level 2 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties. As the discount rate used in the weighted average interest rate on the state level, published by CBBH separately for legal entities and individuals.

34. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were adopted and approved by the Management Board on 13 March 2018:

Signed on behalf of the Bank:

Hamid Pršeš
President of the Management Board

Bedina Jusičić-Musa
Member of the Management Board