

**Investiciono-komercijalna banka d.d.
Zenica**

Financial statements for the year
ended 31 December 2015
and Independent Auditor's Report

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Responsibility for financial statements

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

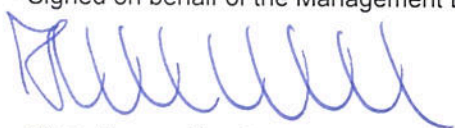
After making enquiries, the Management Board has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board of Directors continues to adopt the going concern basis in preparing the financial statements.

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

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

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



Mirza Hurem, Director

Investiciono-komercijalna banka d.d. Zenica

Trg Bosne i Hercegovine 1

72000 Zenica

Bosnia and Herzegovina

18 March 2016

Independent Auditor's Report

To the shareholders of Investiciono-komercijalna banka d.d. Zenica:

We have audited the accompanying financial statements of Investiciono-komercijalna banka d.d. Zenica (the "Bank"), set out on pages 4 to 46, which comprise of statement of financial position as at 31 December 2015, and the statement of profit and loss, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the legal financial reporting framework in the Federation of Bosnia and Herzegovina, and for such internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank, as of 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with the legal financial reporting framework in the Federation of Bosnia and Herzegovina.

Emphasis of matter

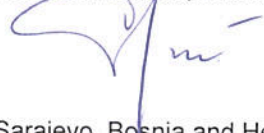
We draw your attention to the following:

Note 25 to the financial statements describes the situation related to legal proceedings with former and current employees. As of 31 December 2015, claims against the Bank were filed by former and current employees of the Bank in the total amount of KM 2,575 thousand, for which provisions were created in 2015 in the total amount of KM 200 thousand.

The financial statements do not include adjustments that could arise as a result of previously described uncertainty. Our audit opinion is not qualified with respect to this matter.

Deloitte d.o.o.

Sead Bahtanović, director and licensed auditor

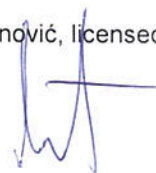


Sarajevo, Bosnia and Herzegovina

18 March 2016



Adnan Bahtanović, licensed auditor



Statement of profit and loss
for the year ended 31 December 2015

(All amounts are expressed in thousands of KM)

	Notes	2015	2014
Interest income	4	7,068	7,769
Interest expense	5	(1,945)	(2,144)
Net interest income		5,123	5,625
Fee and commission income	6	3,272	3,382
Fee and commission expense	7	(1,154)	(1,071)
Net fee and commission income		2,118	2,311
Other gains / (losses), net	8	47	(53)
Other operating income	9	270	262
Operating income		7,558	8,145
Personnel expenses	10	(5,307)	(3,890)
Depreciation and amortization	21	(713)	(743)
Administrative expenses	11	(1,738)	(1,714)
Expenses from operating activities		(7,758)	(6,347)
(LOSS) / PROFIT BEFORE PROVISIONS AND INCOME TAX		(200)	1,798
Impairment losses and provisions	12	258	(395)
PROFIT BEFORE INCOME TAX		58	1,403
Income tax expense	13	(54)	(179)
NET PROFIT		4	1,224
Basic earnings per share (in KM)	34	0.01	2.94

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

Statement of comprehensive income
for the year ended 31 December 2015

(All amounts are expressed in thousands of KM)

	2015	2014
Net profit for the year	4	1,224
Other comprehensive income	<u>21</u>	<u>-</u>
Total comprehensive income for the year	<u>25</u>	<u>1,224</u>

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

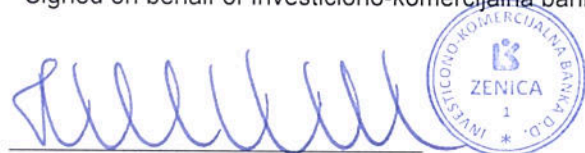
Statement of financial position
as at 31 December 2015

(All amounts are expressed in thousands of KM)

	Notes	31 December 2015	31 December 2014
ASSETS			
Cash and cash equivalents	14	41,198	66,856
Obligatory reserve at Central Bank BH	15	22,535	24,581
Loans and receivables	16	94,445	85,187
Financial assets available for sale	17	22,250	121
Financial assets at fair value through profit and loss	19	122	163
Financial assets held to maturity	20	23,862	31,059
Property and equipment	21	6,658	7,228
Deferred tax assets	13	137	157
Other assets	17	455	279
TOTAL ASSETS		211,662	215,631
LIABILITIES			
Borrowings and due to banks	22	247	4,996
Liabilities for received deposits	23	154,602	155,126
Other liabilities	24	3,796	736
Provisions	25	504	1,061
		159,149	161,919
SHAREHOLDERS' EQUITY			
Share equity		46,390	46,390
Regulatory reserves		231	231
Reserves		5,867	5,867
Revaluation reserves for investments		21	-
Accumulated profit		4	1,224
		52,513	53,712
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		211,662	215,631
FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES	26	16,427	23,202

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

Signed on behalf of Investiciono-komercijalna banka d.d. Zenica on 18 March 2016:



Director

Mirza Hurem



Director of Accounting, Planning
and Analysis Sector
Arifa Duranović

Statement of cash flows
for the year ended 31 December 2015

(All amounts are expressed in thousands of KM)

	2015	2014
Operating Activities		
Profit before taxation	58	1,403
<i>Adjustments:</i>		
Depreciation and amortization	713	743
Decrease of impairment losses and provisions, net	(257)	395
Decrease in deferred tax assets	20	9
Decrease in assets acquired	-	64
Gain on disposal of property and equipment	(59)	(2)
Effects of fair value adjustment on assets at FVTPL	41	17
Interest income on AFS financial assets recognized in profit or loss	(28)	1
Interest income on financial assets held to maturity recognized in profit or loss	(952)	(860)
Dividend income recognized in profit or loss	(13)	-
<i>Cash flow before movements in operating assets and liabilities:</i>	<u>(477)</u>	<u>1,770</u>
Net decrease in receivables from Central Bank	2,046	1,199
Net increase in loans and receivables, before impairment losses	(8,828)	(6,576)
Net (increase) / decrease in other assets, before impairment losses	(195)	106
Net (decrease) / increase in liabilities for received deposits	(524)	27,410
Net (decrease) / increase in due to banks	(4,749)	478
Net decrease in other liabilities	3,060	66
Net increase in provisions	(731)	(125)
<i>Cash from operating activities</i>	<u>(10,398)</u>	<u>24,328</u>
Income tax paid	(34)	(170)
NET CASH (USED IN) / FROM OPERATING ACTIVITIES	<u>(10,432)</u>	<u>24,158</u>
Investing activities		
Decrease / (increase) in held-to maturity financial assets	7,197	(19,109)
Interest income on held-to maturity financial assets	952	860
Purchase of financial assets available for sale	(22,080)	-
Net purchase of property and equipment	(143)	(310)
Proceeds from sale of property and equipment	59	14
Dividend received	13	-
NET CASH USED IN INVESTING ACTIVITIES	<u>(14,002)</u>	<u>(18,545)</u>
Financial activities		
Dividend paid	(1,224)	-
NET CASH USED IN FINANCIAL ACTIVITIES	<u>(1,224)</u>	<u>-</u>
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	<u>(25,685)</u>	<u>5,613</u>
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<u>66,856</u>	<u>61,243</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u>41,198</u>	<u>66,856</u>

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

Statement of changes in shareholders' equity
for the year ended 31 December 2015

(All amounts are expressed in thousands of KM)

	Share equity	Regulatory reserves	Reserves	Revaluation reserves for investments	Accumulated profit	Total
31 December 2013	40,651	231	9,561	-	2,045	52,488
Transfer from/to	-	-	565	-	(565)	-
Technical issue of shares	5,739	-	(4,259)	-	(1,480)	-
Profit for 2014	-	-	-	-	1,224	1,224
Other comprehensive income	-	-	-	-	-	-
<i>Total comprehensive income</i>	-	-	-	-	1,224	1,224
31 December 2014	46,390	231	5,867	-	1,224	53,712
Dividend paid	-	-	-	-	(1,224)	(1,224)
Profit for 2015	-	-	-	-	4	4
Other comprehensive income	-	-	-	21	-	21
<i>Total comprehensive income</i>	-	-	-	21	4	25
31 December 2015	46,390	231	5,867	21	4	52,513

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

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

(All amounts are expressed in thousands of KM)

1. GENERAL

Investiciono-komercijalna banka d.d. Zenica (the "Bank") was registered at the Cantonal Court in Zenica on 20 August 1998. The Bank was established in 1957 as Komunalna Banka, Zenica. The Bank operates under its present name since 30 March 1990, when it has separated from Privredna Banka Sarajevo. The Bank holds a license No. 04-3-1370-1/05 issued by the Banking Agency of the Federation of Bosnia and Herzegovina on 10 February 2006. The registered office of the Bank is in Zenica, Trg Bosne i Hercegovine 1.

The Bank's main operations are as follows:

1. accepting deposits from the public and placing of deposits;
2. providing current and term deposit accounts;
3. granting short- and long-term loans and guarantees to the local municipalities, corporate customers, private individuals and other credit institutions dealing with finance lease and foreign exchange transactions;
4. money market activities;
5. performing local and international payments;
6. foreign currency exchange and other banking-related activities;
7. providing banking services through an extensive agencies network in the Bosnia and Herzegovina.

Supervisory board

Hadžiselimović Eldin	President since 30 June 2015
Fazlić Ibrahim	President until 29 June 2015
Aganspahić Sead	Member since 30 June 2015
Brdarević Fikret	Member until 29 June 2015
Fazlić Ibrahim	Member since 30 June 2015
Brkić Nezir	Member until 29 June 2015
Brkić Arif	Member since 30 June 2015
Kadrić Alma	Member until 29 June 2015
Redžepović Samir	Member

Management Board

Mirza Hurem	Director since 14 October 2015
Ibranović Suvad	Director until 13 October 2015
Selimović Esma	Executive Director for corporate
Edin Mujagić	Executive Director since 14 October 2015
Nadžaković Enisa	Executive Director for coordination and sector development until 30 September 2015

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

(All amounts are expressed in thousands of KM)

1. GENERAL (CONTINUED)

The shareholding structure is as follows:

	31 December 2015			31 December 2014		
	Number of shares	Amount KM '000	%	Number of shares	Amount KM '000	%
<i>Legal entities:</i>						
Residents	331,213	33,121	71.41	211,201	21,120	45.53
Non-residents	730	73	0.16	41,074	4,107	8.85
	331,943	33,194	71.57	252,275	25,227	54.38
<i>Individuals:</i>						
Residents	122,526	12,253	26.40	158,136	15,814	34.09
Non-residents	9,432	943	2.03	53,490	5,349	11.53
	131,958	13,196	28.43	211,626	21,163	45.62
Total	463,901	46,390	100.00	463,901	46,390	100.00

Shareholders' equity as of 31 December 2015 consists of 463,901 common shares with the nominal value of KM 100.

By the Decision of the General Assembly of the Bank, the profit for 2014 in the amount of KM 1,224 thousand was distributed for monetary payments to the shareholders of the Bank.

As of 31 December 2015, Bank's reserves amount KM 5,867 thousand or 12.65% of shareholders' equity.

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.

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

(All amounts are expressed in thousands of KM)

2. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

Financial statements have been prepared pursuant to the legal financial reporting framework in Federation of Bosnia and Herzegovina.

The legal financial reporting framework includes the Law on Accounting and Auditing in FBiH ("Official Gazette FBiH", no. 83/09) and accounting standards applied in FBiH, issued by the Association of accountants, auditors and financial workers in FBiH (based on the authorisation of the Accounting and Auditing Committee of BiH, no 5/07).

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 preparation

The financial statements have been prepared on the historical cost basis.

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

The preparation of financial statements in conformity with the legal financial reporting framework in Federation of Bosnia and Herzegovina requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Information on areas with significant uncertainty in the estimates and critical judgments in applying accounting policies that have the most significant effect on the amounts and disclosures in the financial statements, are disclosed in Note 3.

Interest income and interest expense

Interest income / expense is recognized in the statement of profit and loss for the period that belongs to, at the applicable effective interest rate.

Effective interest rate 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.

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

(All amounts are expressed in thousands of KM)

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

Fee and commission income and expense

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

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

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 statement of profit and loss 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 6 average net salaries of the employee disbursed by the Bank or 6 average salaries in the Bank, depending on what is more favourable to the employee.

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

Taxation

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

Current income tax

The tax expense is based on taxable income for the year. Taxable income differs from net income as reported in the statement of profit and loss 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.

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

(All amounts are expressed in thousands of KM)

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

Taxation (continued)

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 statement of profit and loss, 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, article 42.a. Law on Banks, 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.

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

(All amounts are expressed in thousands of KM)

**2. 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", 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 financial assets at FVTPL.

Effective interest rate method

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

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

Loans and receivables

Loans 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.

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

Financial instruments (continued)

a) Financial assets (continued)

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.

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 36. 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.

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

(All amounts are expressed in thousands of KM)

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

Financial instruments (continued)

a) Financial assets (continued)

Impairment of financial assets (continued)

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.

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.

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

(All amounts are expressed in thousands of KM)

**2. 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

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

Other financial liabilities

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

Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

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

Derecognition of financial liabilities

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

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and any recognized accumulated impairment losses. The purchase cost includes the purchase price and all costs directly related to bringing the asset into operating condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred.

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 statement of profit and loss in the period they occur.

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

	2015	2014
Buildings	1.5%	1.5%
Furniture and vehicles	10%-20%	10%-20%
Computers and other equipment	6.7%-20%	6.7%-20%
Intangible assets	14.3%	14.3%

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

(All amounts are expressed in thousands of KM)

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

Property and equipment (continued)

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.

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.

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

(All amounts are expressed in thousands of KM)

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

Foreign currency translation

Transactions in currencies other than Bosnia and Herzegovina KM are initially recorded at the official exchange rate of the Central Bank on the dates of the transactions, which corresponds to the market exchange rate. 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 statement of profit and loss for the period.

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

31 December 2015	EUR 1 = KM 1.95583	USD 1 = KM 1.790070
31 December 2014	EUR 1 = KM 1.95583	USD 1 = KM 1.608413

Provisions

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

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

Equity and reserves

Share equity

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

Regulatory reserves

Regulatory reserves for credit losses are recognized in accordance with regulations of the Banking Agency of the Federation of Bosnia and Herzegovina ("FBA"). Regulatory reserves for credit losses are non-distributable.

Revaluation reserves for investments

Revaluation reserves for investments include changes in fair value of financial assets available for sale.

Retained earnings

Profit for the period after appropriations to owners are transferred to retained earnings.

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

(All amounts are expressed in thousands of KM)

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

Equity and reserves (continued)

Dividends

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

Earnings per share

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

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

During 2014 and 2015 there were no dilution effects.

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

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

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

(All amounts are expressed in thousands of KM)

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies, which are described in Note 2, the Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an 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 2 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 2 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.

**3. CRITICAL ACCOUNTING JUDGMENTS AND 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)

In May 2015, the Bank has adopted the revised *Internal methodology for impairment under IAS 39*. In accordance with the new methodology, the Bank defined acceptable types of collateral for calculation of impairment, and the beginning of application of expected time for collateral realisation from the moment when a receivable is considered default liability at individual assessment of value of collateral. Effects of these changes are immaterial for the calculation of impairment.

The above mentioned methodology replaces methodology from October 2014.

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.

Regulatory reserves calculated in accordance with FBA regulations

For the purposes of assessing capital adequacy and recognition of reserves for loan losses formed from income in equity and reserve, 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.

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

(All amounts are expressed in thousands of KM)

4. INTEREST INCOME

	2015	2014
Corporate	4,010	4,736
Retail	2,078	2,047
Financial assets held to maturity (Note 20)	952	860
Financial assets available for sale (Note 18)	28	-
Banks	-	126
	7,068	7,769

5. INTEREST EXPENSE

	2015	2014
Corporate	1,082	1,175
Retail	836	942
Banks	7	7
Other	20	20
	1,945	2,144

6. FEE AND COMMISSION INCOME

	2015	2014
Fee income from payment transactions	1,600	1,687
Fee income from services rendered	1,513	1,430
Fee income from issued guarantees	159	265
	3,272	3,382

7. FEE AND COMMISSION EXPENSE

	2015	2014
Payment transactions fees	734	687
Other fees to banks	420	384
	1,154	1,071

8. OTHER GAINS / (LOSSES), NET

	2015	2014
Gain on sale of disposed equipment	59	2
Foreign exchange differences, net	16	27
Income from dividends	13	-
Loss on disposal of financial assets available for sale (Note 18)	-	(1)
Impairment of assets acquired (Note 17)	-	(64)
Fair value adjustment – financial assets at FVTPL (Note 19)	(41)	(17)
	47	(53)

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

(All amounts are expressed in thousands of KM)

9. OTHER OPERATING INCOME

	<u>2015</u>	<u>2014</u>
Income from suspended interest	161	120
Other income	<u>109</u>	<u>142</u>
	<u>270</u>	<u>262</u>

10. PERSONNEL EXPENSES

	<u>2015</u>	<u>2014</u>
Net salaries	2,487	2,037
Taxes and contribution	1,503	1,237
Other	<u>1,317</u>	<u>616</u>
	<u>5,307</u>	<u>3,890</u>

The Bank does not have pension arrangements separate from Bosnia and Herzegovina pension system. This system requires that current contributions by the employer be calculated as a percentage of current gross salary payments and taxes on net salary, these expenses are charged to the profit and loss in the period that related compensation is earned by the employee.

The average number of personnel employed by the Bank during the year ended 31 December 2015 and 2014 was 152 and 161, respectively.

11. ADMINISTRATIVE EXPENSES

	<u>2015</u>	<u>2014</u>
Services	336	269
Equipment and buildings maintenance	321	287
Energy	213	317
Telecommunication services	211	197
Tax expenses	202	236
Supervisory board fees	90	200
Material expenses	76	90
Rent	75	74
Membership fees	72	73
Advertising and representation	49	55
Insurance	20	70
Donations	14	19
Penalties	1	20
Other expenses	<u>58</u>	<u>23</u>
	<u>1,738</u>	<u>1,714</u>

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

(All amounts are expressed in thousands of KM)

12. IMPAIRMENT LOSSES AND PROVISIONS

	2015	2014
Provisions for litigations (Note 25)	200	(20)
Provision for employee benefits (Note 25)	50	80
Other assets (Note 17)	(1)	54
Provision for commitments and contingencies (Note 25)	(77)	155
Loans to customers (Note 16)	(430)	(501)
Provisions for employee benefits related to implementation of the Collective Agreement for the financial sector (Note 25)	-	627
	(258)	395

13. INCOME TAX

Tax liability is based on accounting income taking into the account non-deductible expenses and non-taxable income. Tax income rate for the years ended 31 December 2015 and 31 December 2014 was 10%. Total tax recognised in statement of profit and loss is presented as follows:

	2015	2014
Current income tax expense	34	170
Non-deductible income - temporary differences	20	9
Total income tax expense	54	179

The Management of the Bank believes that the whole amount of the deferred asset will be recoverable and/or utilized in near future, and therefore, deferred tax assets have been recorded in the accompanying financial statements.

The tax expense for the year can be reconciled to the accounting profit as follows:

	2015	2014
Profit before taxation	58	1,403
Income tax at the rate of 10%	6	140
Non-deductible expenses	50	39
Non-taxable income	(22)	(9)
Current tax for the year	34	170
Effective income tax rate	58.52%	12.12%

Changes in deferred tax asset can be presented as follows:

	2015	2014
Balance as at 1 January	157	166
Used deferred assets during the period	(20)	(9)
Balance as at 31 December	137	157

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

(All amounts are expressed in thousands of KM)

14. CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014
Current account in domestic currency with the Central Bank of BiH	27,196	48,260
Current accounts with other banks	9,872	14,250
Cash in hand in domestic currency	2,817	3,052
Cash in hand in foreign currency	1,312	1,291
Checks	1	3
	41,198	66,856

15. OBLIGATORY RESERVE AT CENTRAL BANK OF BOSNIA AND HERZEGOVINA

	31 December 2015	31 December 2014
Specific reserve by Law on banks, article 42 a	9,099	11,954
Obligatory reserve	13,436	12,627
	22,535	24,581

In accordance with Law on banks (article 42 a.), the Bank is obliged to hold 50% of daily balance of received payments from public funds, deposits and transactions for budgetary and off budgetary funds in cash as specific reserve in CBBH. This refers to funds and transactions of customers: Zenica – Doboj Canton, Municipality of Zenica, Health Insurance Institute of Zenica – Doboj Canton, Employment Institute of Zenica – Doboj Canton and other governmental deposits, and 50% of these funds amounted to KM 9,099 thousand as of 31 December 2015.

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

Central Bank of Bosnia and Herzegovina in 2015 no longer charges a fee to cash on account with Central Bank. For the period for which it charged, interest rate for regulatory reserve assets amounted to 0% to 0.147% (2014: 0% to 0.147%), and for assets above the regulatory reserve 0% to 0.189% (2014: 0% to 0.189%). Cash held at the obligatory reserve account with the Central Bank of Bosnia and Herzegovina is not available to bank without specific approval from the Central Bank of Bosnia and Herzegovina and the Federal Banking Agency.

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

(All amounts are expressed in thousands of KM)

16. LOANS AND RECEIVABLES

	31 December 2015	31 December 2014
Short-term loans		
(including current portion of long-term loans):		
Corporate	29,983	27,774
Retail	13,258	9,554
	<u>43,241</u>	<u>37,328</u>
Long term loans		
(excluding current portion of long term loans):		
Corporate	38,113	36,625
Retail	20,760	21,782
	<u>58,873</u>	<u>58,407</u>
Gross loan receivables	<u>102,114</u>	<u>95,735</u>
Less: Allowance for impairment losses based on individual assessment	(4,109)	(6,577)
Less: Allowance for impairment losses based on group assessment	<u>(3,560)</u>	<u>(3,971)</u>
	<u>(7,669)</u>	<u>(10,548)</u>
	<u>94,445</u>	<u>85,187</u>

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

	2014	2013
Balance at 1 January	10,548	11,049
Changes in allowance, net (Note 12)	(430)	(501)
Permanent write off	<u>(2,449)</u>	<u>-</u>
Balance at 31 December	<u>7,669</u>	<u>10,548</u>

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

(All amounts are expressed in thousands of KM)

16. LOANS AND RECEIVABLES (CONTINUED)

Analysis of gross loan receivables before impairment by industry:

	<u>31 December 2015</u>	<u>31 December 2014</u>
Citizens	34,018	31,654
Agriculture, forestry, mining and industry	32,243	38,701
Trade	21,000	15,774
Services, finance, sport and tourism	4,963	3,884
Construction industry	4,643	1,302
Governmental institutions, NGO's and other	4,314	1,803
Transport and communications	933	2,617
	<u>102,114</u>	<u>95,735</u>

Weighted average interest rates for granted loans as at 31 December 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Retail	7.84%	7.66%
Corporate	5.24%	6.07%

17. OTHER ASSETS

	<u>31 December 2015</u>	<u>31 December 2014</u>
Prepaid income tax	191	54
Receivables from banks	120	80
Receivables from government institutions	68	49
Receivables for court fees	41	41
Prepaid expenses	28	54
Acquired tangible assets	26	89
Receivables from Western Union	15	19
Inventories and other office material	11	11
Other	120	112
<i>Total other assets</i>	620	509
Less: Impairment allowance for other assets	(165)	(230)
	<u>455</u>	<u>279</u>

Changes in impairment are as follows:

	<u>2015</u>	<u>2014</u>
Balance at 1 January	230	115
Impairment of assets acquired (Note 8)	-	64
Permanent write off	-	(3)
Changes in provisions, net (Note 12)	(1)	54
Release of impairment due to collection	(64)	-
Balance at 31 December	165	230

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

(All amounts are expressed in thousands of KM)

18. FINANCIAL ASSETS AVAILABLE FOR SALE

	31 December 2015	31 December 2014
Debt securities:		
Ministry of Finance FBiH	19,011	-
Moja Banka d.d. Sarajevo	3,069	-
Accrued interest	28	-
	22,108	-
Equity securities:		
BAMCARD d.o.o., Sarajevo	133	112
Other	9	9
	142	121
	22,250	121

Movements in value of these assets were as follows:

	2015	2014
Balance at 1 January	121	122
Purchases during the year	22,080	-
Interest (Note 4)	28	-
Unrealised gain from fair value adjustments	21	-
Loss on disposals (Note 8)	-	(1)
Balance at 31 December	22,250	121

During 2015 the Bank purchased:

- 1,000 bonds issued by the Ministry of Finance FBiH with the nominal value of KM 1 million; interest rate is 3.89% p.a., maturity date is 27 November 2022;
- 12,000 bonds issued by the Ministry of Finance FBiH with the nominal value of KM 12 million; interest rate is 2.70% p.a., maturity date is 9 December 2020;
- 6,000 bonds issued by the Ministry of Finance FBiH with the nominal value of KM 6 million; interest rate is 2.20% p.a., maturity date is 18 December 2018;
- 3,000 bonds issued by the Moja Banka d.d. Sarajevo with the nominal value of KM 3 million; interest rate is 5.00% p.a., maturity date is 18 August 2020;

Notes to the financial statements
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(All amounts are expressed in thousands of KM)

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	31 December 2015	31 December 2014
Privredna banka Sarajevo d.d. Sarajevo	61	102
Uzajamni fond „Eurohaus Balanced“	61	61
	122	163

Movements in fair value of shares were as follows:

	2015	2014
Balance at 1 January	163	180
Losses on fair value adjustments (Note 8)	(41)	(17)
Balance at 31 December	122	163

20. FINANCIAL ASSETS HELD-TO-MATURITY

	31 December 2015	31 December 2014
Bonds:		
Ministry of Finance FBiH	14,661	18,491
Accrued interest	212	132
	14,873	18,623

Treasury bills:

Ministry of Finance FBiH	8,989	12,436
	8,989	12,436
	23,862	31,059

	2015	2014
Balance at 1 January	31,059	11,952
Purchases during the year	40,546	31,468
Interest (Note 4)	952	860
Charge of principal and interest	(48,695)	(13,221)
Balance at 31 December	23,862	31,059

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

(All amounts are expressed in thousands of KM)

21. PROPERTY AND EQUIPMENT

	Buildings and land	Vehicles	Computers and other equipment	Intangible assets	Leasehold improve- ments	Invest- ments in progress	Total
Cost							
31 December 2013	12,260	150	7,736	2,258	68	63	22,535
Additions	57	-	104	37	-	112	310
Transfer (from)/to	7	-	29	1	-	(37)	-
Disposals	-	-	(3,409)	-	-	-	(3,409)
31 December 2014	12,324	150	4,460	2,296	68	138	19,436
Additions	2	-	48	93	-	-	143
Transfer (from)/to	-	-	57	13	-	(70)	-
Disposals	-	-	(21)	-	-	-	(21)
31 December 2015	12,326	150	4,544	2,402	68	68	19,558
Accumulated depreciation							
31 December 2013	6,660	150	7,067	978	27	-	14,862
Depreciation for 2014	184	20	233	299	7	-	743
Disposals	-	-	(3,397)	-	-	-	(3,397)
31 December 2014	6,844	150	3,903	1,277	34	-	12,208
Depreciation for 2015	185	-	213	309	6	-	713
Disposals	-	-	(21)	-	-	-	(21)
31 December 2015	7,029	150	4,095	1,586	40	-	12,900
Carrying amount							
31 December 2015	5,297	-	449	816	28	68	6,658
31 December 2014	5,480	-	557	1,019	34	138	7,228

22. BORROWINGS AND DUE TO BANKS

	31 December 2015	31 December 2014
Vakufska banka d.d. Sarajevo, with maturity on 15 January 2015, interest rate 3.50 % p.a.	-	3,002
Sparkasse banka d.d. Sarajevo, with maturity on 15 January 2015, interest rate 3.00 % p.a.	-	1,951
Other	247	43
	<u>247</u>	<u>4,996</u>

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

(All amounts are expressed in thousands of KM)

23. LIABILITIES FOR RECEIVED DEPOSITS

	31 December 2015	31 December 2014
Demand deposits:		
<i>Retail:</i>		
In domestic currency	30,871	26,334
In foreign currencies	8,713	7,282
	<u>39,584</u>	<u>33,616</u>
<i>Corporate:</i>		
In domestic currency	19,594	22,679
In foreign currencies	7,250	1,478
	<u>26,844</u>	<u>24,157</u>
<i>Deposits from non-profit organizations, cantonal government, municipalities, etc.:</i>		
In domestic currency	21,794	27,286
In foreign currencies	340	395
	<u>22,134</u>	<u>27,681</u>
	<u>88,562</u>	<u>85,454</u>
Term deposits:		
<i>Retail:</i>		
In domestic currency	12,505	11,312
In foreign currencies	19,452	20,447
	<u>31,957</u>	<u>31,759</u>
<i>Corporate:</i>		
In domestic currency	15,549	13,095
In foreign currencies	8,740	13,637
	<u>24,289</u>	<u>26,732</u>
<i>Deposits from non-profit organizations, cantonal government, municipalities, etc.:</i>		
In domestic currency	9,765	11,152
In foreign currencies	29	29
	<u>9,794</u>	<u>11,181</u>
	<u>66,040</u>	<u>69,672</u>
	<u>154,602</u>	<u>155,126</u>

Corporate demand deposit interest rates as of 31 December 2015 were 0.004% - 0.93% (2014: 0.004% - 1.5%). Term deposit interest rates as of 31 December 2015 were 0.004% - 4.95% (2014: 0.004% - 4.95%).

As of 31 December 2015, as per article 42.b of Law on banks, Bank had concentration of deposits from one source (Government deposit) less than 20% of total deposits.

Notes to the financial statements
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(All amounts are expressed in thousands of KM)

24. OTHER LIABILITIES

	31 December 2015	31 December 2014
Liabilities for purchased bonds – Moja banka d.d. Sarajevo	3,069	-
Liabilities for unpaid dividends	333	220
Deferred income	109	161
Liabilities to suppliers	104	170
Undistributed inflows	34	46
Liabilities for commissions (Note 27)	5	5
Liabilities to legal entities for unused accounts	2	4
Other liabilities to employees	-	48
Other	140	82
	3,796	736

25. PROVISIONS

	31 December 2015	31 December 2014
Provisions for commitments and contingencies	224	301
Provisions for legal proceedings	215	15
Provisions for employee benefits	53	118
Provisions for employee benefits for implementation of the Collective Agreement for the financial sector	12	627
	504	1,061

Commitments and contingencies

In the ordinary course of business, the Bank enters into credit related commitments which are recorded in off-balance sheet accounts and primarily include guarantees and undrawn loan commitments.

	31 December 2015	31 December 2014
Unused approved loans	7,154	15,028
Performance guarantees	6,210	3,168
Payment guarantees	3,063	5,006
	16,427	23,202

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

(All amounts are expressed in thousands of KM)

25. PROVISIONS (CONTINUED)

Movements in provisions were as follows:

	Legal proceedings	Commitments and contingencies	Employee benefits	Provisions for implemen- tation of Collective Agreement	Total
Balance as of 1 January 2013	78	146	120	-	344
Additional provisions recognized (Note 12)	15	646	118	627	1,406
Release of provisions due to re measurement (Note 12)	(35)	(491)	(38)	-	(565)
Reductions resulting from payments	(43)	-	(82)	-	(124)
Balance as of 31 December 2014	15	301	118	627	1,061
Additional provisions recognized (Note 12)	200	-	50	-	250
Release of provisions due to re measurement (Note 12)	-	(77)	-	-	(77)
Reductions resulting from payments	-	-	(115)	(615)	(730)
Balance as of 31 December 2015	215	224	53	12	504

According to the Bank's records, the value of claims of former and current employees as of 31 December 2015 was KM 2,575 thousand.

As at 31 December 2015, the Bank has, based on regulations, court practice and opinion and success in separate work-legal proceedings completed by the attorneys of the Bank, recognised additional provisions in the amount of KM 200 thousand on this basis.

During 2014, the Bank has, based on the implementation of Collective Agreement for the period from April to December 2014, created provisions in the amount of KM 627 thousand for all employees, which have been paid during 2015 in almost the entire amount.

The Management is not aware of circumstances or information that claims would lead to negative consequences for Bank's operations, so it is considered that these provisions are adequate.

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

(All amounts are expressed in thousands of KM)

26. RELATED PARTY TRANSACTIONS

Related parties, as defined by IAS 24, are those counter parties that represent:

- a. enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);
- b. associates – enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- c. individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;
- d. key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and
- e. enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

As at 31 December 2015 and 2014 balance outstanding with related parties comprised:

	31 December 2015			31 December 2014		
	Loans	Off-balance sheet exposure	Total	Loans	Off-balance sheet exposure	Total
Employees	1,357	183	1,540	1,683	270	1,953
Shareholders	4,577	1,601	6,178	7,287	970	8,257
Total	5,934	1,784	7,718	8,970	1,240	10,210

The remuneration of directors and other members of key management were as follows:

	2015	2014
Compensations for directors and other key management personnel	181	138
Taxes and contributions and other compensations	132	98
	313	236

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27. ON LENDING ACTIVITIES

The Bank acts as an agent for these assets on behalf of third parties. These assets are recorded separately from the Bank's assets. For its services, the Bank charges a fee amounting to 2% of the total amount contributed, 40% out of charged interest.

	31 December 2015	31 December 2014
SOURCES		
Zenica – Dobož Canton	10,152	9,997
Others	269	266
	10,421	10,263
PLACEMENTS		
Companies	7,758	7,418
Individuals	2,658	2,840
	10,416	10,258
Difference (Note 24)	5	5

In accordance with agreements signed between government of Zenica-Dobož Canton and IKB d.d. Zenica no. 01-16792/2000 dated 18 September 2000, further more contract no. 05-6530/20 dated 8 May 2002, also in accordance with procedures for administration of contract no. 05-6529/02 dated 8 May 2002 as well as annexed contract no. 05-11432/06 dated 7 September 2006, the Bank has placed KM 2,658 thousand as on-lending funds for investment in apartments construction for third parties (individuals) and agriculture. Out of above-mentioned agreements, the Bank has placed KM 7,758 thousand to legal entities for employment.

In accordance with above agreements between the Bank and sources, the Bank has required to lend on to third parties these funds. The sources bear the all risks in full.

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

(All amounts are expressed in thousands of KM)

28. CAPITAL RISK MANAGEMENT

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

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

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

	31 December 2015	31 December 2014
Debt (i)	154,849	160,122
Equity (ii)	52,513	53,712
Net debt to capital ratio	2.95	2.98

Debt (i) is defined as liabilities to banks and customers presented in detail in Notes 22 and 23. Capital (ii) includes total capital and Bank's reserves.

The adequacy of capital and its use is monitored by the Board of Directors using techniques based on the Decisions of the Banking Agency of the Federation of Bosnia and Herzegovina ("the Regulator"). Information is supplied to the Regulator on a quarterly basis. The Regulator places the following demands on all banks:

1. Hold the minimum level of the share capital of KM 15 million
2. Maintaining a capital to risk assets ratio at the legally required minimum of 12%

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

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

The risk-weighted assets are measured by means of a hierarchy of four weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses. As of 31 December 2015 and 2014 the Bank complied with all of the externally imposed capital requirements to which it was subject. As of 31 December 2015 the adequacy of the Bank's capital amounts to 43% (2014: 46.7%).

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

(All amounts are expressed in thousands of KM)

28. CAPITAL RISK MANAGEMENT (CONTINUED)

Capital adjustment plan

As a result of new Decision of FBA on minimum standards for capital management and capital hedge and including the positive revaluation reserves into Supplementary capital, the Bank's Core capital is not significantly reduced. This change has not caused the breakdown of the prescribed limits in terms credit concentrations as of 31 December 2015.

Additionally, as of 31 December 2015, the ratio "tangible assets / Core capital" amounted 12.98%, and exceeded the maximum allowed ratio of 50% by 37.02% (or KM 18,994 thousand).

FBA defined the end of 2016 as the latest deadline for adjustments and meeting of all limits prescribed by its decisions.

Management does not expect the negative impact of breach of prescribed FBA's limits on the Bank business activities. Capital adequacy as of 31 December 2015 amounts 43%, share capital and total risk assets ratio amounts 46.7%, which means that Bank has provided security instruments. The financial leverage ratio as at 31 December 2015 was 22.7% and was significantly higher than prescribed (6%).

	31 December 2015	31 December 2014
Core capital – Tier 1 capital		
Ordinary shares	46,390	46,390
Other reserves	5,867	5,867
Deferred tax assets	(137)	(157)
Less: Intangible assets	(816)	(1,034)
Total Core capital	51,304	51,066
Supplemental capital - Tier 2 capital		
General regulatory reserves under FBA rules	1,908	1,978
Net profit for the current year	21	-
Total Supplemental capital	1,929	1,978
Deductions from capital		
Shortfall in regulatory reserves	(2,765)	(1,790)
Net capital	50,468	51,254
Risk Weighted Assets (unaudited)	106,383	98,687
Weighted Operational Risk (unaudited)	11,021	11,129
Total weighted risk	117,404	109,761
Capital adequacy (%)	43.0	46.7

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(All amounts are expressed in thousands of KM)

29. FINANCIAL INSTRUMENTS

29.1 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 instruments are disclosed in Note 2 to these financial statements.

29.2 Categories of financial instruments

	31 December 2015	31 December 2014
Financial assets		
Loans and receivables:		
Cash and cash equivalents (including obligatory reserve at the CBBH)	63,733	91,437
Loans and receivables from customers	94,445	85,187
Financial assets available-for-sale	22,250	121
Financial assets at FVTPL	122	163
Financial assets held-to-maturity	23,862	31,059
	204,412	207,967
Financial liabilities		
At amortized cost:		
Borrowings and liabilities to banks	247	4,996
Due to customers	154,602	155,126
	154,849	160,122

29.3 Financial risk management objectives

The Bank's Finance & Risk divisions provide 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.

Notes to the financial statements
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30. BALANCE SHEET IN FOREIGN CURRENCY AND FOREIGN CURRENCY RISK

The Bank undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Bank's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

	Assets		Liabilities	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
EUR	9,156	13,503	42,242	41,045
USD	707	739	725	754
CHF	818	598	684	524
Other currencies	580	752	487	564

Foreign currency sensitivity analysis

The Bank is mainly exposed to USD and CHF. The local currency KM is pegged to EUR fixed rate, therefore, no risk related to the portfolio denominated in EUR has been identified.

The following table details the Bank's sensitivity to a 10% increase and decrease in KM against relevant other currencies. 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 currencies. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit where KM strengthens 10% against relevant currency. For a 10% weakening of KM against relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	Effect of USD		Effect of CHF	
	2015	2014	2015	2014
10% increase/decrease				
Profit or (loss)	2	2	13	7

Notes to the financial statements
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(All amounts are expressed in thousands of KM)

30. BALANCE SHEET IN FOREIGN CURRENCY AND FOREIGN CURRENCY RISK (CONTINUED)

	KM	EUR	USD	CHF	Other curren- cies	Total
31 December 2015						
ASSETS						
Cash and cash equivalents	30,013	9,080	707	818	580	41,198
Obligatory reserves with the Central Bank of BH	22,535	-	-	-	-	22,535
Loans and receivables from customers	94,445	-	-	-	-	94,445
Financial assets available for sale	22,250	-	-	-	-	22,250
Financial assets at fair value through profit and loss	122	-	-	-	-	122
Financial assets held to maturity	23,862	-	-	-	-	23,862
Other financial assets	379	76	-	-	-	455
Total	193,606	9,156	707	818	580	204,867
LIABILITIES						
Liabilities to other banks	247	-	-	-	-	247
Liabilities to customers	110,470	42,236	725	684	487	154,602
Other financial liabilities	3,790	6	-	-	-	3,796
Total	114,507	42,242	725	684	487	158,645
31 December 2014						
Total monetary assets	192,654	13,503	739	598	752	208,246
Total monetary liabilities	117,971	41,045	754	524	564	160,858

31. INTEREST RATE RISK

The Bank is exposed to interest rate risk as the Bank 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 for borrowings.

The exposure of Bank to interest rate to its financial assets and liabilities is presented in details in the note related to liquidity risk (Note 32).

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet 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.

Notes to the financial statements
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31. INTEREST RATE RISK (CONTINUED)

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Bank's profit for the year ended 31 December 2015 would increase/decrease by KM 302 thousands (2014: increase/decrease by KM 375 thousand). This is mainly attributable to the Bank's exposure to interest rates on its variable rate borrowings.

32. LIQUIDITY RISK

The ultimate responsibility for liquidity risk management lies with the Supervisory Board, which has created an adequate framework for the management of liquidity risk to be used for the management of long-, mid- and short-term needs for the management of the Bank's liquidity. The Bank manages this type of risk by maintaining adequate reserves, loans from other banks and other sources of financing, by constantly monitoring the projected and actual cash flows and by comparing 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 liabilities. The tables have 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.

LIABILITIES	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
	%	KM	KM	KM	KM	KM	KM
31 December 2015							
Non-interest bearing	-	12,729	-	-	-	-	12,729
Variable interest rate instruments	0.57	83,765	499	7,445	6,116	1,780	99,605
Fixed interest rate instruments	2.05	6,656	4,162	16,270	20,969	228	48,285
		103,150	4,661	23,715	27,085	2,008	160,619
31 December 2014							
Non-interest bearing	-	3,167	7	-	-	-	3,174
Variable interest rate instruments	0.84	83,445	4,726	9,734	10,095	1,785	109,785
Fixed interest rate instruments	2.63	7,537	5,872	24,865	10,703	24	49,001
		94,149	10,605	34,599	20,798	1,809	161,960

The following table details the Bank's remaining contractual maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted cash flows 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.

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32. LIQUIDITY RISK (CONTINUED)

Liquidity and interest risk tables (Continued)

ASSETS	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
	%	KM	KM	KM	KM	KM	KM
31 December 2015							
Non-interest bearing	-	15,168	4	-	-	142	15,314
Variable interest rate instruments	6.58	1,791	2,003	11,645	29,089	10,845	55,373
Fixed interest rate instruments	3.50	73,615	3,130	32,767	34,658	3,274	147,444
		90,574	5,137	44,412	63,747	14,261	218,131
31 December 2014							
Non-interest bearing	-	19,224	-	-	-	120	19,344
Variable interest rate instruments	7.54	2,694	3,066	13,880	38,020	4,286	61,946
Fixed interest rate instruments	2.80	74,069	3,754	32,742	27,572	2,667	140,804
		95,987	6,820	46,622	65,592	7,073	222,094

33. CREDIT RISK

The Bank takes on exposure to credit risk which is the risk upon credit approval and when counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Commitments to extend credit, undrawn loan commitments, unutilized overdrafts and approved overdraft loans. The primary purpose of commitments to extend credit is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorizations to extend credits in the form of loans, guarantees or stand-by letters of credit. Commitments to extend credit issued by the Bank represent issued loan commitments or guarantees, un drawn portions of and approved overdrafts loans. Commitments to extend credit or guarantees issued by the Bank which are contingent upon customers maintaining specific credit standards (including the condition that a customer's solvency does not deteriorate) are revocable commitments. Irrevocable commitments represent un drawn portions of authorized loans and approved overdraft facilities because they result from contractual terms and conditions in the credit agreements.

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33. CREDIT RISK (CONTINUED)

Financial assets

	Total gross carrying amount	Unimpaired assets	Individually impaired assets	Individual impairment allowance	Collective impairment allowance	Total net carrying amount
31 December 2015						
Cash and assets in banks	41,198	41,198	-	-	-	41,198
Obligatory reserve with CBBH	22,535	22,535	-	-	-	22,535
Loans and receivables	102,114	495	101,619	(4,109)	(3,560)	94,445
Financial assets available for sale	22,250	22,250	-	-	-	22,250
Financial assets at fair value through profit and loss	122	122	-	-	-	122
Financial assets held to maturity	23,862	23,862	-	-	-	23,862
Total	212,081	110,462	101,619	(4,019)	(3,560)	204,412
31 December 2014						
Cash and assets in banks	66,856	66,856	-	-	-	66,856
Obligatory reserve with CBBH	24,581	25,581	-	-	-	24,581
Loans and receivables	95,735	463	95,272	(6,577)	(3,971)	85,187
Financial assets available for sale	121	121	-	-	-	121
Financial assets at fair value through profit and loss	163	163	-	-	-	163
Financial assets held to maturity	31,059	31,059	-	-	-	31,059
Total	218,515	123,243	95,272	(6,577)	(3,971)	207,967

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33. CREDIT RISK (CONTINUED)

Credit exposure and collateral

	Credit risk exposure		Fair value of collateral
	Net exposure	Loan commitments / Guarantees	
31 December 2015			
Cash and assets in banks	41,198	-	-
Obligatory reserve with CBBH	22,535	-	-
Loans and receivables	94,445	16,427	146,584
Financial assets available for sale	22,250	-	-
Financial assets at fair value through profit and loss	122	-	-
Financial assets held to maturity	23,862	-	-
	204,412	16,427	146,584
31 December 2014			
Cash and assets in banks	66,856	-	-
Obligatory reserve with CBBH	24,581	-	-
Loans and receivables	85,187	23,202	179,579
Financial assets available for sale	120	-	-
Financial assets at fair value through profit and loss	163	-	-
Financial assets held to maturity	31,059	-	-
	207,967	23,202	179,579

Estimated value of collateral

	31 December 2015	31 December 2014
Movable properties	5,736	14,675
Real estates	139,702	156,667
Deposits	1,146	7,559
Other	-	648
Total	146,584	179,549

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33. CREDIT RISK (CONTINUED)

Arrears

	Total gross loan portfolio	Not due	Up to 30 days	31 – 90 days	91 – 180 days	181 – 270 days	Over 270 days
31 December 2015							
Corporate loans	68,095	64,180	305	165	293	6	3,146
Retail loans	34,019	30,945	119	17	16	16	2,906
	102,114	95,125	424	182	309	22	6,052
Impairment	(7,669)	(2,513)	(10)	(7)	(69)	(15)	(5,055)
Total	94,445	92,612	414	175	240	7	997
31 December 2014							
Corporate loans	64,473	57,886	846	9	97	2	5,633
Retail loans	31,262	27,881	142	28	11	17	3,183
	95,735	85,767	988	37	108	19	8,816
Impairment	(10,548)	(2,713)	(28)	(2)	(22)	(10)	(7,773)
Total	85,187	83,054	960	35	86	9	1,043

34. BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to ordinary shareholders by weighted average number of ordinary shares in issue during the year.

	2015	2014
Profit attributable to shareholders (KM '000)	4	1,224
Ordinary shares (weighted average)	463,901	415,783
Basic earnings per share 2015 in KM	0.01	2.94

35. APPROVAL OF THE FINANCIAL STATEMENTS

The Supervisory Board approved these financial statements on 18 March 2016.

Signed on behalf of the Management:



Director of the Bank

Mirza Hurem




Director of Accounting, Planning
and Analysis Sector
Arifa Duranović