ASA Banka d.d. Sarajevo

Financial statements for the year
ended 31 December 2016
and Independent Auditor's Report

Contents

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 International Financial Reporting Standards (IFRS), which give a true and fair view of the state of affairs and results of ASA Banka d.d. Sarajevo (the "Bank") for that period. IFRS are published by the International Accounting Standards Board (IASB).

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

Samir Mustafić, Director
ASA Banka d.d. Sarajevo
Trg međunarodnog prijateljstva 25
71000 Sarajevo

ASA BANKA DIONIČKO DRUŠTVO SARAJEVO
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2

Bosnia and Herzegovina
30 March 2017

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Independent Auditor's Report

To the shareholders of ASA Banka d.d. Sarajevo:

We have audited the accompanying financial statements of ASA Banka d.d. Sarajevo (the "Bank"), set out on pages 4 to 50, which comprise of statement of financial position as at 31 December 2016, 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 International Financial Reporting Standards, and for such internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the 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 present fairly, in all material respects, the financial position of the Bank as of 31 December 2016, and its performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Emphasis of matter

We draw the attention to the Note 27 to the financial statements, which describes the situation related to court proceedings with former and current employees. As at 31 December 2016, former and current employees of the Bank filed claims against the Bank in the total amount of KM 3,193 thousand, for which provisions were formed in 2016 in the amount of KM 703 thousand.

Deloitte d.o.o.

Sead Bahtanović, director and licensed auditor

Sabina Softić, partner and licensed auditor

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

Sarajevo, Bosnia and Herzegovina

30 March 2017

Statement of profit and loss
for the year ended 31 December 2016

(All amounts are expressed in thousands of KM)

	Notes	2016	2015
Interest income	5	12,778	7,068
Interest expense	6	(2,993)	(1,945)
Net interest income		**9,785**	**5,123**
Fee and commission income	7	4,849	3,272
Fee and commission expense	8	(1,318)	(1,154)
Net fee and commission income		**3,531**	**2,118**
Other gains, net	9	835	47
Other operating income	10	84	270
Operating income		**14,235**	**7,558**
Personnel expenses	11	(5,708)	(5,307)
Depreciation and amortization	21	(963)	(713)
Administrative expenses	12	(3,848)	(1,738)
Expenses from operating activities		**(10,521)**	**(7,758)**
PROFIT / (LOSS) BEFORE PROVISIONS AND INCOME TAX		**3,716**	**(200)**
Impairment losses and provisions	13	(1,890)	258
PROFIT BEFORE INCOME TAX		**1,826**	**58**
Income tax expense	14	-	(54)
NET PROFIT		**1,826**	**4**
Basic and diluted earnings per share (in KM)	37	**3.34**	**0.01**

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

Statement of comprehensive income
for the year ended 31 December 2016

(All amounts are expressed in thousands of KM)

	2016	**2015**
Profit for the year	**1,826**	**4**
Other comprehensive income	127	21
Total comprehensive income for the year	**1,953**	**25**

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

Statement of financial position
as at 31 December 2016

(All amounts are expressed in thousands of KM)

	Notes	31 December 2016	31 December 2015
ASSETS			
Cash and cash equivalents	15	47,728	41,198
Obligatory reserve at the Central Bank	16	54,408	22,535
Loans and receivables	17	247,090	94,445
Financial assets at fair value through profit and loss	18	8,090	122
Financial assets available for sale	19	31,807	22,250
Financial assets held to maturity	20	1,756	23,862
Property and equipment	21	11,446	6,658
Deferred tax assets	14	137	137
Other assets	22	5,905	455
TOTAL ASSETS		**408,367**	**211,662**
LIABILITIES			
Borrowings and due to banks	23	3,289	247
Liabilities for received deposits	24	324,529	154,602
Subordinated debt	25	8,118	-
Other liabilities	26	2,244	3,796
Provisions	27	1,122	504
		339,302	**159,149**
EQUITY			
Shareholders' equity		65,870	46,390
Own / treasury shares		(2,953)	-
Regulatory reserves		231	231
Reserves		7,479	5,867
Revaluation reserves for investments		80	21
(Accumulated loss) / retained earnings		(1,642)	4
		69,065	**52,513**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**408,367**	**211,662**
FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES	27	**27,001**	**16,427**

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

Signed on behalf of ASA Banka d.d. Sarajevo on 30 March 2017:

Director

Samir Mustafić

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2

Director of Finance and Accounting

Azemina Smailbegović

Statement of cash flows
for the year ended 31 December 2016

(All amounts are expressed in thousands of KM)

	2016	2015
Operating Activities		
Profit before taxation	1,826	58
Adjustments:		
Depreciation and amortization	963	713
Impairment losses and provisions, net	1,890	(258)
Decrease in deferred tax assets	-	20
Gain on disposal of property and equipment	(36)	(59)
Effects of fair value adjustment on assets at FVTPL	(97)	41
Interest income on AFS financial assets recognized in profit or loss	(1,024)	(28)
Interest income on financial assets held to maturity recognized in profit or loss	(217)	(952)
Dividend income recognized in profit or loss	(33)	(13)
Cash flow before movements in operating assets and liabilities:	*3,272*	*(478)*
Net (increase) / decrease in receivables from Central Bank	(14,557)	2,046
Net increase in loans and receivables, before provisions	(49,235)	(8,827)
Net increase in other assets, before provisions	(1,695)	(195)
Net increase / (decrease) in liabilities for received deposits	13,906	(524)
Net increase / (decrease) in due to banks	718	(4,749)
Net (decrease) / increase in other liabilities	(2,016)	3,060
Net decrease in provisions	(6)	(731)
Cash from operating activities	*(49,613)*	*(10,398)*
Income tax paid	-	(34)
NET CASH USED IN OPERATING ACTIVITIES	**(49,613)**	**(10,432)**
Investing activities		
Decrease in financial assets held-to maturity	13,822	8,149
Decrease / (increase) in AFS financial assets	949	(22,080)
Decrease in financial assets at FVTPL	504	-
Net purchase of property and equipment	(891)	(143)
Cash from business combination	44,627	-
Proceeds from sale of property and equipment	36	59
Dividend received	33	13
NET CASH FROM / (USED IN) INVESTING ACTIVITIES	**59,080**	**(14,002)**
Financial activities		
Increase in liabilities for subordinated debt	16	-
Purchase of own shares	(2,953)	-
Dividend paid	-	(1,224)
NET CASH USED IN FINANCIAL ACTIVITIES	**(2,937)**	**(1,224)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**6,530**	**(25,685)**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**41,198**	**66,856**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**47,728**	**41,198**

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

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

(All amounts are expressed in thousands of KM)

	Shareholders' equity	Own / treasury shares	Regulatory reserves	Reserves	Revaluation reserves for investments	Accumulated profit	Total
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
Total comprehensive income	-	-	-	-	*21*	*4*	*25*
31 December 2015	**46,390**	**-**	**231**	**5,867**	**21**	**4**	**52,513**
Purchased own shares	-	(2,953)	-	-	-	-	(2,953)
Merger (Notes 1 and 30)	19,480	-	-	1,612	(68)	(3,472)	17,552
Profit for 2016	-	-	-	-	-	1,826	1,826
Other comprehensive income	-	-	-	-	127	-	127
Total comprehensive income	-	-	-	-	*127*	*1,826*	*1,953*
31 December 2016	**65,870**	**(2,953)**	**231**	**7,479**	**80**	**(1,642)**	**69,065**

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

(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.

Based on the Decision of the Shareholders Assembly of Investiciono-komercijalna banka d.d. Zenica on status change of merger of Moja Banka d.d. Sarajevo with Investiciono-Komercijalna banka d.d. Zenica, no. 01/3-7491-12/16, dated 26 June 2016, and the Decision of the Shareholders Assembly of Moja Banka d.d. Sarajevo on status change of merger of Moja Banka d.d. Sarajevo with Investiciono-Komercijalna banka d.d. Zenica, no. 1-5750-11/16, dated 20 June 2016, and the Decision of the Municipality Court in Sarajevo, no. 043-0-Reg-16-000747, dated 15 September 2016, the merger of Moja Banka d.d. Sarajevo with Investiciono-komercijalna banka d.d. Sarajevo was registered in the Companies Registry at the Municipality Court in Zenica.

By the Decision of the Municipality Court in Sarajevo, no. 065-0-Reg-16-004922, dated 30 December 2016, the name and registered address of Investiciono-komercijalna banka d.d. Zenica were changed into ASA Banka d.d. Sarajevo, with the headquarters at the address Trg Međunarodnog prijateljstva 25 in Sarajevo.

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

Management Board

Samir Mustafić	Director since 1 August 2016
Selimović Esma	Executive Director
Edin Mujagić	Executive Director
Mirza Hurem	Director until 31 July 2016

(All amounts are expressed in thousands of KM)

1. GENERAL (CONTINUED)

The shareholding structure is as follows:

	31 December 2016			31 December 2015		
	Number of shares	Amount KM '000	%	Number of shares	Amount KM '000	%
Legal entities:						
Residents	515,585	51,558	78.27	331,213	33,121	71.41
Non-residents	19,427	1,943	2.95	730	73	0.16
	535,012	***53,501***	***81.22***	***331,943***	***33,194***	***71.57***
Individuals:						
Residents	108,739	10,875	16.51	122,526	12,253	26.40
Non-residents	14,944	1,494	2.27	9,432	943	2.03
	123,683	***12,369***	***18.78***	***131,958***	***13,196***	***28.43***
Total	**658,695**	**65,870**	**100.00**	**463,901**	**46,390**	**100.00**

Shareholders' equity as of 31 December 2016 consists of 658,695 common shares with the nominal value of KM 100.

As of 31 December 2016, Bank's reserves amount KM 7,479 thousand or 11.35% of shareholders' equity.

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

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and Interpretations effective in the current period

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

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" -Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.1 Standards and Interpretations effective in the current period (continued)

- Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

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

2.2 Standards and Interpretations in issue not yet adopted

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 "Revenue from Contracts with Customers" and further amendments (effective for annual periods beginning on or after 1 January 2018),
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).

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

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

Financial statements have been prepared pursuant to the 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 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.

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.

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

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 actuary calculation.

Taxation

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

Current income tax

The tax expense is based on taxable income for the year. Taxable income differs from net income as reported in the 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.

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.

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

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.

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".

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

Financial instruments (continued)

a) Financial assets (continued)

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.

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.

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

Financial instruments (continued)

a) Financial assets (continued)

Impairment of financial assets (continued)

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.

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.

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 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".

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.

(All amounts are expressed in thousands of KM)

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

Property and equipment (continued)

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:

	2016	2015
Buildings	1.5%	1.5%
Furniture and vehicles	10%-15%	10%-20%
Computers and other equipment	10%-20%	10%-20%
Intangible assets	14.3%	14.3%

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.

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.

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

Foreign currency translation (continued)

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 1.855450
31 December 2014	EUR 1 = KM 1.95583	USD 1 = KM 1.790070

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 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.

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

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.

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

Earnings per share (continued)

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.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an 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.

4. 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)

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.

In September 2016, 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 May 2015.

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.

(All amounts are expressed in thousands of KM)

5. INTEREST INCOME

	2016	2015
Corporate	7,738	4,010
Retail	3,019	2,078
Financial assets available for sale (Note 19)	1,024	28
Factoring income	688	-
Financial assets held to maturity (Note 20)	217	952
Banks	3	-
Other interest	89	-
	12,778	**7,068**

6. INTEREST EXPENSE

	2016	2015
Corporate	1,148	1,082
Retail	1,595	836
Banks	213	7
Other	37	20
	2,993	**1,945**

7. FEE AND COMMISSION INCOME

	2016	2015
Fee income from payment transactions	2,320	1,600
Fee income from services rendered	2,158	1,513
Fee income from issued guarantees	371	159
	4,849	**3,272**

8. FEE AND COMMISSION EXPENSE

	2016	2015
Payment transactions fees	891	734
Other fees to banks	427	420
	1,318	**1,154**

9. OTHER GAINS, NET

	2016	2015
Collected written-off receivables	277	-
Foreign exchange differences, net	223	16
Rented buildings	169	-
Gain on sale of disposed equipment	36	59
Income from dividends	33	13
Fair value adjustment – financial assets at FVTPL (Note 18)	97	(41)
	835	**47**

(All amounts are expressed in thousands of KM)

10. OTHER OPERATING INCOME

	2016	2015
Income from suspended interest	39	161
Other income	45	109
	84	**270**

11. PERSONNEL EXPENSES

	2016	2015
Net salaries	3,065	2,487
Taxes and contribution	1,855	1,503
Other	788	1,317
	5,708	**5,307**

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 2016 and 2015 was 162 and 152, respectively.

12. ADMINISTRATIVE EXPENSES

	2016	2015
Rent	625	75
Equipment and buildings maintenance	619	321
Services	605	336
Energy	321	213
Telecommunication services	312	211
Tax expenses	230	202
Material expenses	131	76
Donations	147	14
Reorganization and merger	123	-
Membership fees	114	72
Utilities	89	3
Advertising	79	49
Insurance	79	20
Subsequently identified other expenses	73	20
Supervisory board fees	67	90
Card operations	69	-
Service contracts	50	20
Penalties	9	1
Write-offs	6	-
Other expenses	100	15
	3,848	**1,738**

(All amounts are expressed in thousands of KM)

13. IMPAIRMENT LOSSES AND PROVISIONS

	2016	2015
Loans to customers (Note 17)	1,262	(430)
Provisions for litigations (Note 27)	355	200
Other assets (Note 22)	212	(1)
Provision for commitments and contingencies (Note 27)	62	(77)
Provision for employee benefits (Note 27)	7	50
Provisions based on the Collective Agreement (Note 27)	(8)	-
	1,890	**(258)**

14. 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 2016 and 31 December 2015 was 10%. Total tax recognised in statement of profit and loss is presented as follows:

	2016	2015
Current income tax expense	-	34
Non-deductible income - temporary differences	-	20
Total income tax expense	**-**	**54**

The tax expense for the year can be adjusted to the financial income as follows:

	2016	2015
Profit before taxation	**1,826**	**58**
Income tax at the rate of 10%	***183***	***6***
Effects of non-deductible expenses	-	50
Effects of non-taxable income	-	(22)
Effect of tax losses of Moja Banka d.d. Sarajevo	(183)	-
Current tax for the year	**-**	**34**
Effective income tax rate	**-**	**58.52%**

Responsible bodies of the Bank believes that tax losses of Moja Banka d.d. Sarajevo can be carried forward to the successor bank through the merger process. In accordance with the Corporate Income Tax Act, rights and obligations of merged, acquired or divided taxpayers are assumed by legal successors in tax-legal relation.

Provisions of the Rulebook on implementation of CIT Act stipulate that a taxpayer that merges another taxpayer cannot use tax loss of the merged entity for decrease of its future tax base. Responsible bodies of the Bank believe that, in this case, the provisions of the Law, as the supreme legal act, are applicable, and they are not aware of circumstances or information that using transferred tax losses will cause negative consequences for the Bank.

Changes in deferred tax asset can be presented as follows:

	2016	2015
Balance as at 1 January	**137**	**157**
Used deferred tax assets during the period	-	(20)
Balance as at 31 December	**137**	**137**

(All amounts are expressed in thousands of KM)

15. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Current account in domestic currency with the Central Bank of BiH	34,668	27,196
Cash in hand in domestic currency	6,452	2,817
Current accounts with other banks	3,674	9,872
Cash in hand in foreign currency	2,934	1,312
Checks	-	1
	47,728	**41,198**

16. OBLIGATORY RESERVE AT CENTRAL BANK OF BOSNIA AND HERZEGOVINA

	31 December 2016	31 December 2015
Specific reserve by Law on banks, article 42 a	21,111	9,099
Obligatory reserve	33,297	13,436
	54,408	**22,535**

In accordance with Law on banks (articles 42 a. and 42 b.), the Bank is obliged to hold daily balance of funds as specific reserve in CBBH. The Basis for calculation of special reserve as at 31 December 2016 was KM 42,222 thousand (31 December 2015: KM 18,188 thousand)

Minimum obligatory reserve is calculated as a percentage of average balance of deposits and loaned funds for each working day during the previous 10 calendar days of holding obligatory reserves. Minimum obligatory reserve rates were 10% of total deposits and loaned funds.

The Central Bank of Bosnia and Herzegovina calculates fee on cash funds over the obligatory reserve at the account in Central Bank. For the period calculated, the interest rate on funds over the obligatory reserve amounted to 0.02% (2015: 0% to 0.147%). Cash held as obligatory reserve at the account in Central Bank of Bosnia and Herzegovina is not available to the Bank without the special approval of the Central Bank of Bosnia and Herzegovina and the Banking Agency of FBiH.

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

17. LOANS AND RECEIVABLES

	31 December 2016	31 December 2015
Short-term loans		
(including current portion of long-term loans):		
Corporate	124,366	29,983
Retail	24,833	13,258
	149,199	*43,241*
Long term loans		
(excluding current portion of long term loans):		
Corporate	91,191	38,113
Retail	35,043	20,760
	126,235	*58,873*
Gross loan receivables	**275,433**	**102,114**
Less: Allowance for impairment losses based on individual assessment	(22,883)	(4,109)
Less: Allowance for impairment losses based on group assessment	(5,460)	(3,560)
	(28,343)	**(7,669)**
	247,090	**94,445**

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

	2016	2015
Balance at 1 January	**7,669**	**10,548**
Merger (Notes 1 and 30)	20,074	-
Increase / (decrease), net (Note 13)	1,262	(430)
Write off	(662)	(2,449)
Balance at 31 December	**28,343**	**7,669**

Analysis of gross loan receivables before impairment by industry:

	31 December 2016	31 December 2015
Citizens	59,876	34,018
Agriculture, forestry, mining and industry	67,183	32,243
Trade	81,464	21,000
Services, finance, sport and tourism	29,004	4,963
Construction industry	15,325	4,643
Governmental institutions, NGO's and other	6,383	4,314
Transport and communications	16,198	933
	275,433	**102,114**

(All amounts are expressed in thousands of KM)

17. LOANS AND RECEIVABLES (CONTINUED)

Weighted average interest rates for granted loans as at 31 December 2016 and 2015 were as follows:

	2016	2015
Retail	6.91%	7.84%
Corporate	5.56%	5.24%

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

Shares:	31 December 2016	31 December 2015
Banks	22	61
Private companies	242	-
Non-banking financial institutions	66	-
Public companies	46	61
	376	**122**

Bonds	31 December 2016	31 December 2015
Budgetary expenses FBIHK17A	5,070	-
Budgetary expenses FBIH	1,022	-
War receivables – A series	598	-
War receivables – B series	621	-
War receivables – C series	209	-
War receivables – D series	131	-
War receivables – E series	63	-
	7,714	**-**
	8,090	**122**

Movements in fair value of assets were as follows:

	2016	2015
Balance at 1 January	**122**	**163**
Merger (Notes 1 and 30)	8,375	-
Gain / (loss) on fair value adjustments (Note 9)	97	(41)
Decrease	(6)	-
Transfer to own shares	(498)	-
Balance at 31 December	**8,090**	**122**

(All amounts are expressed in thousands of KM)

19. FINANCIAL ASSETS AVAILABLE FOR SALE

	31 December 2016	31 December 2015
Debt securities:		
Ministry of Finance FBiH	30,542	22,080
Accrued interest	167	28
	30,709	***22,108***
Investments in funds:		
Open investment fund 'Lilium Balanced' Sarajevo	377	-
Open investment fund 'Lilium Global' Sarajevo	196	-
Open investment fund 'Lilium Cash' Sarajevo	162	-
	735	-
Equity securities:		
BAMCARD d.o.o., Sarajevo	226	133
Sarajevo Stock Exchange d.d. Sarajevo	103	-
Securities Registry in FBiH	15	-
Vakufska Banka d.d Sarajevo	10	-
Bank Association	9	-
Other	-	*9*
	363	***142***
	31,807	**22,250**

Movements in value of these assets were as follows:

	2016	2015
Balance at 1 January	**22,250**	121
Transfer from financial assets held to maturity (Note 20)	8,526	-
Interest (Note 5)	1,024	28
Merger (Notes 1 and 30)	827	-
Unrealised gain from fair value adjustments	127	21
(Decrease) / increase, net	(947)	22,080
Balance at 31 December	**31,807**	**22,250**

(All amounts are expressed in thousands of KM)

20. FINANCIAL ASSETS HELD-TO-MATURITY

	31 December 2016	31 December 2015
Bonds:		
Ministry of Finance FBiH	1,736	14,661
Municipality Hadžići	20	-
Accrued interest	-	212
	1,756	*14,873*
Treasury bills:		
Ministry of Finance FBiH	-	8,989
	-	*8,989*
	1,756	**23,862**

	2016	2015
Balance at 1 January	**23,862**	**31,059**
Interest (Note 5)	217	952
Merger (Notes 1 and 30)	25	-
Transfer to AFS financial assets(Note 19)	(8,526)	-
Decrease, net	(13,822)	(8,149)
Balance at 31 December	**1,756**	**23,862**

(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 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**
Additions	-	-	-	-	-	891	891
Merger (Notes 1 and 30)	2,964	397	4,846	1,631	1,413	10	11,261
Transfer (from) / to	5	205	352	268	1	(831)	-
Disposals	-	(161)	-	-	-	-	(161)
31 December 2016	**15,295**	**591**	**9,742**	**4,301**	**1,482**	**138**	**31,549**
Accumulated depreciation							
31 December 2014	**6,844**	**150**	**3,903**	**1,277**	**34**	**-**	**12,208**
Depreciation	185	-	213	309	6	-	713
Disposals	-	-	(21)	-	-	-	(21)
31 December 2015	**7,029**	**150**	**4,095**	**1,586**	**40**	**-**	**12,900**
Depreciation	197	43	347	343	33	-	963
Merger (Notes 1 and 30)	420	258	3,571	1,154	998	-	6,401
Disposals	-	(161)	-	-	-	-	(161)
31 December 2016	**7,646**	**290**	**8,013**	**3,083**	**1,071**	**-**	**20,103**
Carrying amount							
31 December 2016	**7,649**	**301**	**1,729**	**1,218**	**411**	**138**	**11,446**
31 December 2015	**5,297**	**-**	**449**	**816**	**28**	**68**	**6,658**

(All amounts are expressed in thousands of KM)

22. OTHER ASSETS

	31 December 2016	31 December 2015
Receivables from banks	2,911	120
Prepaid expenses	1,057	28
Acquired tangible assets	456	26
Factoring receivables	434	-
Prepaid income tax	219	191
Receivables from government institutions	135	68
Inventories and other office material	42	11
Receivables for court fees	-	41
Receivables from Western Union	-	15
Other	1,873	120
Total other assets	*7,127*	*620*
Less: Impairment allowance for other assets	(1,222)	(165)
	5,905	**455**

Changes in impairment are as follows:

	2016	2015
Balance at 1 January	**165**	**230**
Acquisition (Notes 1 and 30)	1,014	-
Increase / (decrease), net (Note 13)	212	(1)
Write off	(169)	-
Release of impairment due to collection	-	(64)
Balance at 31 December	**1,222**	**165**

23. DUE TO BANKS

	31 December 2016	31 December 2015
Deposits		
Demand deposits	89	247
Fixed-term deposits	3,200	-
	3,289	**247**

(All amounts are expressed in thousands of KM)

24. LIABILITIES FOR RECEIVED DEPOSITS

	31 December 2016	31 December 2015
Demand deposits:		
Retail:		
In domestic currency	51,833	30,871
In foreign currencies	17,657	8,713
	69,490	*39,584*
Corporate:		
In domestic currency	25,836	19,594
In foreign currencies	3,563	7,250
	29,399	*26,844*
Deposits from non-profit organizations, cantonal government, municipalities, etc.:		
In domestic currency	68,638	21,794
In foreign currencies	8,597	340
	77,235	*22,134*
	176,124	**88,562**
Fixed-term deposits:		
Retail:		
In domestic currency	38,246	12,505
In foreign currencies	56,049	19,452
	94,295	*31,957*
Corporate:		
In domestic currency	6,878	15,549
In foreign currencies	848	8,740
	7,726	*24,289*
Deposits from non-profit organizations, cantonal government, municipalities, etc:		
In domestic currency	24,870	9,765
In foreign currencies	21,514	29
	46,384	*9,794*
	148,405	**66,040**
	324,529	**154,602**

Corporate demand deposit interest rates as of 31 December 2016 were 0.000% - 0.93% (2015: 0.004% - 0.93%). Fixed-term deposit interest rates as of 31 December 2016 were 0.04% - 4.80% (2015: 0.004% - 4.95%).

As of 31 December 2016 and 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.

(All amounts are expressed in thousands of KM)

25. SUBORDINATED DEBT

	31 December 2016	31 December 2015
ASA Finance d.d. Sarajevo *(KM 3,000,000; interest rate – 8% p.a.; maturity – 13 December 2018)*	3,000	-
ASA Finance d.d. Sarajevo *(KM 3,000,000; interest rate – 5% p.a.; maturity – 11 August 2020)*	3,000	-
ASA Finance d.d. Sarajevo *(KM 2,000,000; interest rate – 6% p.a.; maturity – 28 March 2018)*	2,000	-
Accrued interest	118	-
	8,118	**-**

26. OTHER LIABILITIES

	31 December 2016	31 December 2015
Card operations	1,141	-
Liabilities to suppliers	337	104
Liabilities for unpaid dividends	316	333
Deferred income	117	109
Undistributed inflows	49	34
Liabilities for managed funds commissions (Note 29)	40	5
Liabilities for assumed deposits of Poštanska Banka	8	9
Liabilities for purchased bonds – Moja banka d.d. Sarajevo	-	3,069
Liabilities to legal entities for unused accounts	-	2
Other liabilities to employees	-	-
Other	236	140
	2,244	**3,796**

27. PROVISIONS

	31 December 2016	31 December 2015
Provisions for legal proceedings	703	215
Provisions for commitments and contingencies	361	224
Provisions for employee benefits	57	53
Provisions for employee benefits for implementation of the Collective Agreement for the financial sector	1	12
	1,122	**504**

(All amounts are expressed in thousands of KM)

27. PROVISIONS (CONTINUED)

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 2016	31 December 2015
Unused approved loans	13,149	7,154
Performance guarantees	9,973	6,210
Payment guarantees	3,746	3,063
Letters of credit	133	-
	27,001	**16,427**

Movements in provisions were as follows:

	Legal proceedings	Commitments and contingencies	Employee benefits	Provisons for implemen-tation of Collective Agreement	Total
Balance as of 1 January 2015	**15**	**301**	**118**	**627**	**1,061**
Increase (Note 13)	200	-	50	-	250
Decrease (Note 13)	-	(77)	-	-	(77)
Payments	-	-	(115)	(615)	(730)
Balance as of 31 December 2015	**215**	**224**	**53**	**12**	**504**
Increase (Note 13)	355	62	7	-	424
Merger (Notes 1 and 30)	133	75	-	-	208
Decrease (Note 13)	-	-	-	(8)	(8)
Payments	-	-	(3)	(3)	(6)
Balance as of 31 December 2016	**703**	**361**	**57**	**1**	**1,122**

According to the Bank's records, the value of claims of former and current employees as of 31 December 2016 was KM 3,193 thousand.

As at 31 December 2016, the Bank has, based on regulations, court practice and opinion and success in separate work-legal proceedings completed by the attorneys of the Bank, had provisions in the amount of KM 703 thousand, and in 2016 it recognised additional provisions in the amount of KM 488 thousand on this basis.

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.

(All amounts are expressed in thousands of KM)

28. 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 2016 and 2015 balance outstanding with related parties comprised:

	31 December 2016			31 December 2015		
	Loans	**Off-balance sheet exposure**	**Total**	**Loans**	**Off-balance sheet exposure**	**Total**
Employees	2,001	316	2,317	1,357	183	1,540
Shareholders	4,716	255	4,971	4,577	1,601	6,178
Total	**6,717**	**571**	**7,288**	**5,934**	**1,784**	**7,718**

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

	2016	**2015**
Compensations for directors and other key management personnel	399	181
Taxes and contributions and other compensations	183	132
	582	**313**

(All amounts are expressed in thousands of KM)

29. MANAGED FUNDS

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 2016	31 December 2015
SOURCES		
Zenica – Doboj Canton	10,186	10,152
Sarajevo Canton	1,951	-
Others	454	269
	12,591	**10,421**
PLACEMENTS		
Companies	9,486	7,758
Individuals	3,065	2,658
	12,551	**10,416**
Difference (Note 26)	**40**	**5**

In accordance with agreements signed between government of Zenica-Doboj Canton and Sarajevo Canton with the Bank, the Bank has placed KM 9,486 thousand as on-lending funds to legal entities and KM 3,065 thousand to individuals, for investment in apartments construction for third parties, employment incentive, and agriculture.

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.

30. BUSINESS COMBINATIONS

In December 2015, Investiciono-komercijalna banka d.d. Zenica and Moja Banka d.d. Sarajevo adopted the Decisions on intended merger, and based on them, the process of merger of Moja Banka d.d. Sarajevo with Investiciono-komercijalna banka d.d. Zenica was initiated.

On 20 June 2016, the Banking Agency of Federation of Bosnia and Herzegovina issued a pre-approval for status change, and on 20 June 2016 the meeting of the Shareholders Assembly of Moja banka d.d. Sarajevo and the Shareholders Assembly of Investiciono-komercijalna banka d.d. Zenica were held, in which the shareholders adopted the Decision on status change – merger and the reorganization plan, together with the Study on economic adequacy of merger of banks.

Based on Bank's request from 21 June 2016, the Securities Commission of Federation of Bosnia and Herzegovina adopted the Decision no. 03/2-19-222/16 on 21 July 2016 for approval of the status change.

On 15 September 2016, the Municipality Court in Zenica adopted the Decision on registering the status change – merger, after which the changes were made with the Securities Commission of Federation of Bosnia and Herzegovina, and the Securities Registry of Federation of Bosnia and Herzegovina.

(All amounts are expressed in thousands of KM)

30. BUSINESS COMBINATIONS

On 31 July 2016, the merger of Moja Banka d.d. Sarajevo and Investiciono-komercijalna banka d.d. Sarajevo was completed. In accordance with the share swap ratio and rounding, after the cessation of trading with the shares of Moja Banka d.d. Sarajevo, as at 23 June 2016, total shareholders' equity of the successor Bank after merger amounts to (nominally) KM 65,869,500, comprising of 658,695 shares with nominal value of KM 100.00 per share. Out of the total number of shares, 8,604 are treasury (own) shares that the successor bank acquires in law force during the status change – merger, and they have a special status. In exchange for 597,798 ordinary (common) shares of Moja Banka d.d. Sarajevo after share swap, the successor Bank issues 194,794 ordinary (common) Class "A" shares, "O" series, with nominal value of KM 100.00 per share and total nominal value of KM 19,479,400. During the swap of ordinary shares of Moja Banka d.d. Sarajevo in the determined ratio, the existing shareholders, who will not have a rounded number of shares, the shares will be rounded to a higher number instead of additional payment for shares and/or payment to shareholders. This will be done in a manner that the amount of full share will be settled from the reserve fund, i.e. to the nominal value of a share of KM 100.00, for 94 ordinary shares with nominal value of KM 100.00 in the total amount of KM 9,400.

The balance sheet of Moja Banka d.d. Sarajevo as at 31 July 2016 can be presented as follows:

ASSETS	**Moja Banka d.d. Sarajevo**
Cash and cash equivalents	44,627
Obligatory reserve at the Central Bank	17,316
Loans and receivables, gross	124,476
Impairment of given loans and receivables (Note 17)	(20,074)
Financial assets available for sale (Note 19)	827
Financial assets at FVTPL (Note 18)	8,375
Financial assets held to maturity (Note 20)	25
Property and equipment (Note 21)	4,860
Other assets, gross	4,981
Impairment of other assets (Note 22)	(1,014)
TOTAL ASSETS	**184,669**
Share capital	29,890
Statutory reserves	1,621
Revaluation reserves for investments	(68)
Accumulated loss	(13,891)
TOTAL EQUITY	**17,552**
Borrowings and due to banks	2,324
Liabilities for deposits	156,021
Other liabilities	464
Provisions	208
Subordinated debt	8,102
TOTAL LIABILITIES	**167,117**
TOTAL EQUITY AND LIABILITIES	**184,669**

(All amounts are expressed in thousands of KM)

31. CAPITAL RISK MANAGEMENT

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

• To comply with the capital requirements set by the regulators of the banking markets;

• To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

• To maintain a strong capital base to support the development of its business

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

	31 December 2016	31 December 2015
Debt (i)	335,936	154,849
Equity (ii)	69,065	52,513
Net debt to capital ratio	**4.86**	**2.95**

Debt (i) is defined as liabilities to banks and customers presented in detail in Notes 23, 24 and 25, 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 2016 and 2015 the Bank complied with all of the externally imposed capital requirements to which it was subject. As of 31 December 2016 the adequacy of the Bank's capital amounts to 20.2% (31 December 2015: 43.0%).

(All amounts are expressed in thousands of KM)

31. CAPITAL RISK MANAGEMENT (CONTINUED)

Capital adjustment plan

As of 31 December 2016, the ratio "tangible assets / Core capital" amounted 17.49% (31 December 2015: 12.98%), meaning that is below the maximum allowed ratio of 50% for 32.51% or KM 21,278 thousand (2015: 37.02% or KM 18,994 thousand).

Management expects that the decision of the Banking Agency of FBiH will not have negative impact on Bank's operations. Capital adequacy as of 31 December 2016 amounts 20.2% (31 December 2015: 43.0%), share capital and total risk assets ratio amounts 23.7% (31 December 2015: 43.7%), which means that the Bank has provided security instruments. The financial leverage ratio as at 31 December 2016 was 15.1% (31 December 2015: 22.7%) and was significantly higher than prescribed (6%).

	31 December 2016	31 December 2015
Core capital – Tier 1 capital		
Ordinary shares	65,870	46,390
Statutory reserves	1,612	-
Other reserves	5,867	5,867
Unallocated retained profit from previous years	4	-
Uncovered losses carried forward from previous years	(1,160)	-
Current year loss	(2,313)	-
Carrying amount of own (treasury) shares	(2,953)	-
Deferred tax assets	(137)	(137)
Negative revaluation reserves	(115)	
Less: Intangible assets	(1,219)	(816)
Total Core capital	**65,456**	**51,304**
Supplemental capital - Tier 2 capital		
General regulatory reserves under FBA rules	3,453	1,908
Subordinated debt	3,831	
Positive revaluation reserves based on effects of changes in fair value of assets	195	21
Total Supplemental capital	**7,479**	**1,929**
Deductions from capital		
Shortfall in regulatory reserves	17,216	(2,765)
Net capital	**55,719**	**50,468**
Risk Weighted Assets (unaudited)	252,780	106,383
Weighted Operational Risk (unaudited)	23,457	11,021
Total weighted risk	**276,237**	**117,404**
Capital adequacy (%)	**20.2**	**43.0**

(All amounts are expressed in thousands of KM)

32. FINANCIAL INSTRUMENTS

32.1 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.

32.2 Categories of financial instruments

	31 December 2016	31 December 2015
Financial assets		
Loans and receivables:		
Cash and cash equivalents (including obligatory reserve at the CBBH)	102,136	63,733
Loans and receivables	247,090	94,445
Financial assets at FVTPL	8,090	122
Financial assets available-for-sale	31,807	22,250
Financial assets held-to-maturity	1,756	23,862
	390,879	**204,412**
Financial liabilities		
At amortized cost:		
Borrowings and liabilities to banks	3,828	247
Subordinated debt	8,118	-
Due to customers	332,654	154,602
	335,936	**154,849**

32.3 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.

(All amounts are expressed in thousands of KM)

33. 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 2016	31 December 2015	31 December 2016	31 December 2015
EUR	161,819	9,156	145,549	42,242
USD	1,523	707	1,513	725
CHF	1,156	818	1,060	684
Other currencies	1,003	580	716	487

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	
	2016	2015	2016	2015
10% increase/decrease				
Profit or (loss)	-	2	2	13

(All amounts are expressed in thousands of KM)

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

	KM	EUR	USD	CHF	Other curren-cies	Total
31 December 2016						
ASSETS						
Cash and cash equivalents	41,119	2,927	1,523	1,156	1,003	47,728
Obligatory reserves with the Central Bank of BH	54,408	-	-	-	-	54,408
Loans and receivables from customers	90,401	156,689	-	-	-	247,090
Financial assets available for sale	8,090	-	-	-	-	8,090
Financial assets at fair value through profit and loss	31,807	-	-	-	-	31,807
Financial assets held to maturity	1,756	-	-	-	-	1,756
Other financial assets	3,893	2,012	-	-	-	5,905
Total	**231,283**	**161,819**	**1,523**	**1,156**	**1,003**	**396,784**
LIABILITIES						
Liabilities to other banks	3,289	-	-	-	-	3,289
Liabilities to customers	175,691	145,549	1,513	1,060	716	324,529
Subordinated debt	8,118	-	-	-	-	8,118
Other financial liabilities	2,244	-	-	-	-	2,244
Total	**189,342**	**145,549**	**1,513**	**1,060**	**716**	**338,180**
31 December 2015						
Total monetary assets	**193,606**	**9,156**	**707**	**818**	**580**	**204,867**
Total monetary liabilities	**114,507**	**42,242**	**725**	**684**	**487**	**158,645**

34. 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 35).

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.

(All amounts are expressed in thousands of KM)

34. 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 2016 would increase/decrease by KM 404 thousands (2015: increase/decrease by KM 402 thousand). This is mainly attributable to the Bank's exposure to interest rates on its variable rate borrowings.

35. 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 2016							
Non-interest bearing	-	80,674	216	152	1,140	874	83,056
Variable interest rate instruments	1.17	101,644	6,281	19,510	37,062	468	164,965
Fixed interest rate instruments	4.8	3,319	8,821	35,155	53,468	1,572	102,335
		185,637	**15,318**	**54,817**	**91,670**	**2,914**	**350,356**
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**

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.

(All amounts are expressed in thousands of KM)

35. 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 2016							
Non-interest bearing	-	109,508	153	115	-	234	110,010
Variable interest rate instruments	5.27	19,524	10,825	54,241	81,340	31,836	197,766
Fixed interest rate instruments	4.24	6,239	8,610	25,168	69,721	8,457	118,195
		135,271	**19,588**	**79,524**	**151,061**	**40,527**	**425,971**
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**

36. 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.

(All amounts are expressed in thousands of KM)

36. 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 2016						
Cash and assets in banks	47,728	47,728	-	-	-	47,728
Obligatory reserve with CBBH	54,408	54,408	-	-	-	54,408
Loans and receivables	275,433	-	275,433	(22,883)	(5,460)	247,090
Financial assets available for sale	31,807	31,807	-	-	-	31,807
Financial assets at fair value through profit and loss	8,090	8,090	-	-	-	8,090
Financial assets held to maturity	1,756	1,756	-	-	-	1,756
Total	**419,222**	**143,789**	**275,433**	**(22,883)**	**(5,460)**	**390,879**
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**

(All amounts are expressed in thousands of KM)

36. CREDIT RISK (CONTINUED)

Credit exposure and collateral

	Credit risk exposure		
	Net exposure	Loan commitments / Guarantees	Fair value of collateral
31 December 2016			
Cash and assets in banks	47,728	-	-
Obligatory reserve with CBBH	54,408	-	-
Loans and receivables	247,090	27,001	483,709
Financial assets available for sale	31,807	-	-
Financial assets at fair value through profit and loss	8,090	-	-
Financial assets held to maturity	1,756	-	-
	390,879	**27,001**	**483,709**
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**

Estimated value of collateral

	31 December 2016	31 December 2015
Movable properties	38,372	5,736
Real estates	440,850	139,702
Deposits	4,487	1,146
Total	**483,709**	**146,584**

(All amounts are expressed in thousands of KM)

36. 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 2016							
Corporate loans	215,558	176,472	1,079	3,215	850	671	33,271
Retail loans	59,875	52,019	280	113	130	50	7,283
	275,433	**228,491**	**1,359**	**3,328**	**980**	**721**	**40,554**
Impairment	**(28,343)**	**(23,435)**	**(2,072)**	**(134)**	**(125)**	**(719)**	**(1,858)**
Total	**247,090**	**205,056**	**(713)**	**3,194**	**855**	**2**	**38,696**
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**

(All amounts are expressed in thousands of KM)

37. FAIR VALUE MEASUREMENT

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

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

Financial assets / Financial liabilities	**Fair value at the date**		**Fair value hierarchy**	**Valuation techniques and inputs**
	31 December 2016	**31 December 2015**		
1) Financial assets at FVTPL (see Note 18)	Equity securities listed on the Stock Exchange in Bosnia and Herzegovina: • Shares of private and public companies, banks and non-banking financial institutions – KM 375 thousand Debt securities listed on the Stock Exchange in Bosnia and Herzegovina: • FBiH Government bonds – KM 7,714 thousand	Equity securities listed on the Stock Exchange in Bosnia and Herzegovina: • Shares of private and public companies, banks and non-banking financial institutions – KM 859 thousand Debt securities listed on the Stock Exchange in Bosnia and Herzegovina: • FBiH Government bonds – KM 7,697 thousand	Level 1	Prices quoted on an active market.
1) Financial assets available-for-sale (see Note 19)	Equity securities listed on the Stock Exchange in Bosnia and Herzegovina without trading: • Vakufska banka d.d. Sarajevo – KM 10 thousand • Sarajevo Stock Exchange d.d. Sarajevo – KM 103 thousand • Securities Registry in FBiH – KM 15 thousand	Equity securities listed on the Stock Exchange in Bosnia and Herzegovina without trading: • Vakufska banka d.d. Sarajevo – KM 10 thousand • Sarajevo Stock Exchange d.d. Sarajevo – KM 103 thousand • Securities Registry in FBiH – KM 15 thousand	Level 1	
	• BamCard d.d. Sarajevo – KM 226 thousand • Bank Association – KM 9 thousand Share in investment funds: • Open investment funds – KM 735 thousand	Share in investment funds: • Open investment funds – KM 857 thousand	Level 2	Discounted cash flow valuation technique, considering the last available rate on owned or similar equity securities as yield rate.
	Debt securities listed on the Stock Exchange in Bosnia and Herzegovina: • FBiH Government bonds – KM 30,709 thousand		Level 1	

(All amounts are expressed in thousands of KM)

37. FAIR VALUE MEASUREMENT (CONTINUED)

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

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

	31 December 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial asset				
Loans and receivables:				
- Loans to customers, net	247,090	244,983	94,445	91,661
- Financial assets held to maturity	1,756	1,756	23,862	23,862
Financial payables:				
At amortized cost:				
- Due to customers and financial institutions	324,526	331,689	154,602	158,950
- Subordinated debt	8,118	7,832	-	-

	Fair value hierarchy as of 31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial asset				
Loans and receivables:				
- Loans to customers	-	244,983	-	244,983
- Financial assets held to maturity	-	1,756	-	1,756
	-	**246,739**	**-**	**246,739**
Financial payables:				
At amortized cost:				
- Due to customers, other banks and financial institutions	-	331,689	-	331,689
- Subordinated debt	-	7,844	-	7,844
	-	**339,533**	**-**	**339,533**

The fair values of the financial assets and financial liabilities included in the level 3 category 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.

(All amounts are expressed in thousands of KM)

38. 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.

	2016	2015
Profit attributable to shareholders (KM '000)	1,826	4
Ordinary shares (weighted average)	546,825	546,825
Basic earnings per share in KM	**3.34**	**0.01**

As the number of ordinary shares increased in 2016 as a result of merger (Notes 1 and 30), the calculation of basic earnings per share for all presented periods has been adjusted retroactively.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The Management of the Bank approved these financial statements on 30 March 2017.

Signed on behalf of the Management:

ASA BANKA DIONIČKO DRUŠTVO SARAJEVO
ASA
BANKA
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Director of the Bank
Samir Mustafić

Director of Finance and Accounting
Azemina Smailbegović