ASA BANKA D.D. SARAJEVO

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

Contents

Responsibility for the financial statements

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

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

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

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

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

Signed on behalf of the Management Board

Samir Mustafić
Director

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27 April 2018

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Independent Auditor's Report

To the shareholders of ASA Banka d.d. Sarajevo

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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Key Audit Matters (continued)

Key Audit Matter	**How our audit addressed the Key Audit Matter**
Estimate of impairment for loan losses and receivables from customers	***Procedures undertaken***
For the accounting policies refer to the Note "*Impairment of financial assets*" in Section 3, Basis for presentation and summary of significant accounting policies. For additional information on Key Audit Matters refer to Note *Impairment for loan losses and receivables* in Section 4. Critical accounting judgments and key sources of estimation uncertainty. As at 31 December 2017, Bank had impairment for loan and receivables losses in amount of BAM 33 million. IFRS requires management to make judgments about the future and various items in the financial statements are subject to estimation uncertainty. The estimates required for loss provisions for loans to and receivables from customers are significant estimates. The identification of loans that are deteriorating, the assessment of objective evidence of impairment, and the value of collateral, forecasts of future cash flows and the determination of the recoverable amount of loans are all inherently uncertain. The Bank recognizes portfolio provisions for loans, which are not individually significant, and a provision for impairment losses incurred but not yet reported or identified with a specific loan. In addition, the Bank recognizes provisions for specific loan receivable by estimating recoverable amount based on future estimated cash flows, including the cash flows from collaterals. We focused on this area during the audit due to the significance of the amounts involved for the financial statements and also because of the nature of the judgements and assumptions that management are required to make.	Our Audit approach was the following: We verified that the Bank's methodology for estimating loan loss provisions was appropriate and was being applied consistently; We assessed and tested the design, implementation, and operating effectiveness of the controls related to the timely identification of impaired loans; We examined a sample of individually significant loan exposures, in order to test loan loss provisions calculated on an individual basis; We considered management's assumptions, including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default; We assessed the underlying models, reasonableness of assumptions, and completeness and accuracy of the underlying data, which were used by the Bank to estimate portfolio loan loss provisions for loans that share similar credit risk characteristics; We assessed prior year auditor's procedures that have been performed over the loan loss provisions and conclusions reached to confirm that opening balance does not contain material misstatement. Our audit did not lead to any material adjustments to the impairment for loan losses at 31 December 2017.

Audit of financial statements for the year ended 31 December 2016 was conducted by another auditor who expressed unmodified opinion in their report dated on 30 March 2017, with emphasis on matter of court proceedings initiated against the Bank as at 31 December 2016.

Responsibility of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatements of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misinterpretations or the override of internal controls.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern, If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

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

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

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

RSM Audit BH d.o.o.

Lejla Kaknjo, Director and Certified Auditor

DRUŠTVO ZA REVIZIJU „RSM Audit BH" d.o.o. SARAJEVO

Berna Šljokić, Partner and Certified Auditor

Sarajevo, 27 April 2018

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

	Notes	2017	2016
Interest income	5	17,179	12,778
Interest expense	6	(4,742)	(2,993)
Net interest income		**12,437**	**9,785**
Fee and commission income	7	7,206	4,849
Fee and commission expense	8	(2,098)	(1,318)
Net fee and commission income		**5,108**	**3,531**
Other gains	9	1,383	835
Other operating income	10	226	84
Income from operating activities		**19,154**	**14,235**
Personnel expenses	11	(7,258)	(5,708)
Depreciation expenses	23	(1,364)	(963)
Other administrative expenses	12	(8,486)	(3,848)
Operating expenses		**(17,108)**	**(10,519)**
PROFIT BEFORE IMPAIRMENT LOSSES, PROVISIONS AND TAXATION		**2,046**	**3,716**
Impairment losses and provisions, net	13	(5,217)	(1,890)
(LOSS) / PROFIT BEFORE TAXATION		**(3,171)**	**1,826**
Income tax	14	-	-
Loss as a result of decrease in deferred tax assets		(7)	-
(LOSS) / PROFIT AFTER TAXATION		**(3,178)**	**1,826**
(Loss) / earnings per share – basic and diluted (in KM)	15	**(4,82)**	**3,34**

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

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

	Notes	2017	2016
Net (loss) / profit		(3,178)	1,826
Other comprehensive profit:			
Change in fair value of financial assets available-for-sale	20	27	127
TOTAL COMPREHENSIVE (LOSS) / PROFIT		**(3,151)**	**1,953**

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

Balance sheet
as at 31 December 2017

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

	Notes	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	16	94,962	47,728
Obligatory reserve with Central bank B&H	17	40,358	54,408
Loans and receivables	18	289,864	247,090
Financial assets at fair value through profit and loss	19	8,144	8,090
Financial assets available-for-sale	20	27,204	31,807
Financial assets held-to-maturity	21	1,867	1,756
Other assets and receivables, net	22	10,236	5,905
Tangible and intangible assets	23	9,987	11,446
Deferred tax assets	14	124	137
TOTAL ASSETS		**482,746**	**408,367**
LIABILITIES			
Due to banks	24	2,700	3,289
Due to customers	25	397,992	324,529
Subordinated debt	26	8,058	8,118
Other liabilities	27	5,970	2,244
Provisions	28	646	1,122
Total liabilities		**415,366**	**399,302**
EQUITY			
Shareholders' equity	29	65,870	65,870
Treasury shares		-	(2,953)
Regulatory reserves		231	231
Reserves		5,992	7,479
Revaluation reserves for investments		107	80
Accumulated loss		(4,820)	(1,642)
Total equity		**67,380**	**69,065**
TOTAL LIABILITIES AND EQUITY		**482,746**	**408,367**

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

Signed on behalf of Bank on 27 April 2018

Samir Mustafić
Director

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Azemina Smailbegović
Director of Finance and Accounting

Statement of cash flows
for the year ended 31 December 2017

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

	2017	2016
Operating Activities		
Loss/(profit) before taxation	(3,178)	1,826
Adjustments:		
Depreciation	1,364	963
Impairment losses and provisions, net	5,217	1,890
Decrease in deferred tax assets, net	13	-
Gain on disposal of property and equipment, net	(19)	(36)
Effects of fair value adjustment on assets at fair value through profit and loss	38	(97)
Dividend income recognized in profit and loss	(26)	(33)
Interest income on available for sale financial assets recognized in profit and loss	(884)	(1,024)
Interest income on financial assets held to maturity recognized in profit or loss	(179)	(217)
Decrease in value on financial asset at fair value through profit and loss and financial assets available for sale	123	-
Changes in assets and liabilities:		
Decrease/ (increase) in receivables from Central bank BH	14,050	(14,557)
Net increase in loans and receivables, before impairment	(47,376)	(49,235)
Net increase in other assets, before impairment	(3,089)	(1,695)
Net increase in due to customers	73,463	13,906
Net (decrease) / increase in due to banks	(589)	718
Net increase/ (decrease) in other liabilities	3,726	(2,016)
Net decrease in provisions	(988)	(6)
Income tax paid	-	-
NET CASH FROM / (USED) IN OPERATING ACTIVITIES	**41,666**	**(49,613)**
Investing activities		
Proceeds from financial assets held-to maturity, net	68	13,822
Proceeds from available for sale financial assets, net	5,427	949
(Increase) / decrease of financial assets at fair value through profit and loss	(128)	504
Dividends received	26	33
Purchase of tangible and intangible assets	(1,291)	(891)
Proceeds from sale of property and equipment	60	36
Cash from business combination	-	44,627
NET CASH FROM INVESTMENT ACTIVITIES	**4,162**	**59,080**
Financial activities		
(Decrease) / increase in liabilities for subordinated debt	(60)	16
Sale / (purchase) od own shares	1,466	(2,953)
NET CASH FROM / (USED IN) FINANCIAL ACTIVITIES	**1,406**	**(2,937)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**47,234**	**6,530**
CASH AND CASH EQUIVALENTS AT THE YEAR START	**47,728**	**41,198**
CASH AND CASH EQUIVALENTS AT THE YEAR END	**94,962**	**47,728**

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

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

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

	Shareholders' equity	Own / treasury shares	Regulatory reserves	Reserves	Revaluation reserves for investments	Accumulated (loss) / Retained profit	Total
Balance as of 31 December 2015	**46,390**	**-**	**231**	**5,867**	**21**	**4**	**52,513**
Net profit	-	-	-	-	-	1,826	1,826
Other comprehensive income	-	-	-	-	127	-	127
Total comprehensive income	**-**	**-**	**-**	**-**	***127***	***1,826***	***1,953***
Purchased own shares	-	(2,953)	-	-	-	-	(2,953)
Merger (Notes 1. i 30.)	19,480	-	-	1,612	(68)	(3,472)	17,552
Balance as of 31 December 2016	**65,870**	**(2,953)**	**231**	**7,479**	**80**	**(1,642)**	**69,065**
Net loss	-	-	-	-	-	(3,178)	(3,178)
Other comprehensive income	-	-	-	-	27	-	27
Total comprehensive loss	-	-	-	-	***27***	***(3,178)***	***(3,151)***
Sale of treasury shares		2,953	-	(1,487)	-	-	1,466
Balance as of 31 December 2017	**65,870**	**-**	**231**	**5,992**	**107**	**(4,820)**	**67,380**

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

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

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 that 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 with 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 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 headquatrets at the address Trg međunarodnog prijateljstva 25 in Sarajevo.

The Bank's main operations are as follows:

- accepting and placing of deposits;
- accepting of a vista and term deposits;
- granting long – and short-term loans and guarantees to the local authorities, corporate customers, private individuals and other credit institutions dealing with finance lease and foreign exchange transactions;
- interbanking market activities,
- services of local and international payments;
- foreign currency exchange and other banking-related activities and
- providing banking services through an extensive agencies network in Bosnia and Herzegovina.

Supervisory board and Management board

Supervisory board

Hadžiselimović Eldin	President
Aganspahić Sead	Member
Samir Redžepović	Member
Fazlić Ibrahim	Member
Arif Brkić	Member

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

1. GENERAL (CONTINUED)

Supervisory board and Management board (continued)

Management board

Samir Mustafić	Director
Edin Mujagić	Executive Director
Jasmin Spahić	Executive Director since 1 April 2017
Esma Selimović	Executive Director until 31 March 2017

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and Interpretation effective in the current period

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

- Amendments to IAS 7: „Statement of Cash Flows" – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 12: „Income taxes" – Recognition of Deferred Tax Assets for Unrealized Losses (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IFRS 12 "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS primarily with a view to removing inconsistencies and clarifying wording – Disclosure of interest in entities (effective for annual periods beginning on or after 1 January 2017);

2.2 Standards and Interpretations in issue not yet adopted

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

- Amendments to IFRS 2: „Share-based Payment" – Clarification of accounting treatment of share-based payments (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);
- IFRS 9: "Financial Instruments " (effective for annual periods beginning on or after 1 January 2018);
- IFRS 15: "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018);
- IFRS 16: „Leases" (effective for annual periods beginning on or after 1 January 2019);
- IFRS 17: „Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IFRS 9 „Financial instruments" – regarding prepayment features with negative compensation and modifications of financial liabilities (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 40: „Investment property" – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IAS 28: „ Investments in Associates and Joint Ventures " – Long term investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

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

- Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IAS 28) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2018);
- IFRIC 22: „Foreign currency transactions – advance consideration" (effective for annual periods beginning on or after 1 January 2018);
- IFRIC 23: „Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019);

The Bank has selected not to adopt these standards, amendments 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 Company, except for IFRS 9. The Management is currently analysing the effect of IFRS 9 on Bank's financial reports.

2.3 IFRS 9 „Financial Instruments"

The new accounting standard IFRS 9 "Financial Instruments", was published in July 2014 by the IASB which became effective on 1 January 2018 and which replaces the existing IAS 39 "Financial instruments: recognition and measurement".

IFRS 9 is divided into three main phases: classification and measurement of financial instruments, impairment and hedge accounting.

With regard to the first area, IFRS 9 provides that the classification of financial asset is determined, on one hand by characteristics of the associated contractual cash flows and, on the other hand, by financial instrument management intent (business model). Instead of the previous four accounting categories, financial assets, according to IFRS 9, can be classified into three categories:

- Financial assets measured at amortised cost (AC),
- Financial assets measured at fair value through other comprehensive income – (FVOCI)
- Financial assets measured at fair value through profit and loss (FVPL).

Financial assets can be classified in the first two categories and valued at amortised cost or fair value through other comprehensive income only if it is proved that it leads to cash flows that are solely principal and interest payments (so-called "solely payment of principal and interest" – "SPPI test"). Equity securities are always classified in the third category and are valued at fair value through profit or loss, unless the entity chooses (irrevocably, at the time of the initial entry) that shares which are not held for trading are classified at fair value through other comprehensive income. In that case, reserves recognized within other comprehensive income will never be transferred to the profit and loss account, even in the event of termination of a financial instrument (financial assets valued at fair value through other comprehensive income without "recycling").

Regarding the classification and valuation of financial liabilities, significant changes are not introduced in relation to the present standard.

In respect of impairment, for instruments valued at amortised cost and at fair value through other comprehensive income (other than equity instruments), a model based on the concept of expected losses is introduced instead of the current "loss incurred", with an aim of faster loss recognition.

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.3 IFRS 9 „Financial Instruments" (continued)

IFRS 9 requires companies to enter the expected losses at the level of losses expected in the next 12 months (stage 1) from the initial entry of the financial instrument. The time horizon for calculating the expected loss becomes the entire remaining life of the asset that is the subject of the valuation where the credit quality of the financial instrument has experienced a "significant" credit risk deterioration in relation to the initial measurement (stage 2) or in case the asset is partially or fully non-performing (Stage 3). More specifically, the introduction of new impairment provisions includes:

- Allocation of performing financial assets at different levels of credit risk ("staging"), corresponding to value adjustments based on expected losses over the next 12 months (the so-called "Stage 1") or lifetime for the entire remaining duration of the instrument (the so-called "Stage 2"), in the presence of a significant increase in credit risk;
- Allocation of partially or fully non-performing financial assets in the so-called "Stage 3", always with value adjustments based on expected losses over the entire duration of the instrument;
- Inclusion of Expected Credit Losses ("ECL") in the calculation, as well as the expected future changes of the macroeconomic scenario.

Implementation project

Within IFRS 9 implementation phase, in accordance with anticipated changes of the International Financial Reporting Standard, Bank has engaged consultant aimed at defining an impairment methodology and software development, accurate assessment of the transition to IFRS 9, focus on key indicators and detail introduction of the Standard itself.

Classification and Measurement

In order to comply with IFRS 9 rules - introducing a model that classifies financial assets defined, on the one hand, by contractual features of cash flows of instruments and, on the other hand, by management intent for which they are held - defines the methods of implementing the test of contractual characteristics of cash flows (the so-called SPPI Test). At the date of this report, activities on implementation of SPPI Test are ongoing.

Impairment

According to accepted impairment methodology, its measurement relates to financial assets classified in the business model "Held to maturity", valued at the amortised cost (AC). Methodology defines methods of measurement of changes in loan position quality in financial assets portfolio which is measured at amortised cost or at fair value through other comprehensive income. Also, methodology defines criteria for identification of increase of loan loss risks with the purpose of adequate allocation of performing exposure in "Stage 1" or in "Stage 2". Stage 3 defines exposures for which there is objective evidence of impairment, exposures which are recognized as default or those clients which are declared as non-performing.

There are two bases of measurement of expected credit losses:

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

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.3 IFRS 9 „Financial Instruments“ (continued)

Calculation of impairment is based on:

- Portfolio segmentation (corporate loans, retail housing loans, other retail loans),
- Determined risk level (Stage 1, Stage 2, Stage 3),
- Assessment method (group/individual).

Basic criteria used to determine the materiality threshold relative to portfolio assessment on individual basis is defined by FBA regulation and Bank adopted and defines following:

- total exposure over KM 25,000 for retail
- KM 0 for corporate.

The definition of default status is identified using IFRS requirements as follows:

- client is in default if overdue more than 90 days in material amount,
- based on monitoring activities, Bank assess client's inability to meet its obligations,
- restructuring and rescheduling of debt comparing with initially approved conditions because of clients financial obstacles,
- impairment of loan receivables,
- liquidation and bankruptcy.

Counter of days overdue includes materiality thresholds of due receivables for the initiation of counting. Due receivables are defined as those over KM 500 and 2.5% of total exposure for corporate, and those over KM 20 and 1% of total exposure for retail.

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

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

LGD is calculated based on CR parameters as well as on effective value of collateral divided on all existing contracts.

CR parameter (Cure Rate) provides information on part of default transaction recovered on normal course of operations (without collection from collateral) during defined time period (*t months – CR parameter time horizon).*

EAD (Exposure At Default) represents a portion of net exposure less present value of cash flows from collateral, which is decreased over time depending on contractual payments as described by IFRS 9.

EIR (Effective Interest Rate) is used for discounting cash flows.

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

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.3 IFRS 9 „Financial Instruments" (continued)

Impact analysis

Based on previously described, the following IFRS 9 impact has been estimated as follows:

Description	Total exposure	IFRS 9	IAS 39	Difference
Portfolio type				
Loan portfolio – corporate	*290,326*	*36,682*	*26,842*	*9,840*
Performing	244,380	4,569	3,431	1,138
non-performing	45,946	32,113	23,411	8,702
Loan portfolio – retail	*64,090*	*6,943*	*6,224*	*719*
performing	55,913	284	263	21
non-performing	8,177	6,659	5,961	698
Loan portfolio - total	**354,416**	**43,625**	**33,066**	**10,559**
performing	300,293	4,853	3,694	1,159
non-performing	54,123	38,772	29,372	9,400
Investments in securities - total	**37,323**	**238**	**1**	**237**
performing	37,323	238	1	237
non-performing	-	-	-	-
Cash and cash equivalents - total	**82,798**	**22**	**17**	**5**
performing	82,798	22	17	5
non-performing	-	-	-	-
Other financial assets	**10,782**	**1,173**	**1,173**	-
performing	6,857	3	3	-
non-performing	3,925	1,170	1,170	-
TOTAL	***485,319***	***45,058***	***34,257***	***10,801***
performing	427,271	5,116	3,715	1,401
non-performing	58,048	39,942	30,542	9,400
Risk level				
Stage 1 – group	406,574	4,315	3,512	803
Stage 2 – group	24,622	1,971	1,373	598
Stage 3 – group and individual	54,123	38,772	29,372	9,400
TOTAL	***485,319***	***45,058***	***34,257***	***10,801***

3. BASIS FOR PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Going concern

Financial statements are prepared under the going concern basis which assumes that the Bank will be able to realise the assets and settle the liabilities in the normal course of business.

Basis of preparation

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

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

Fair value is the price that would be received for sale or be paid for the transfer of duties in a regular transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using other valuation techniques. In estimating the fair value of assets or liabilities, the Bank takes into account the characteristics of the asset or liability which would be taken into account by market participants when determining the price of the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such basis, except for measurements that have some similarities to fair value, but are not affair value, such as value in use in IAS 36.

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

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

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

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets and liabilities, income and expenses. 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 4.

Accounting policies are adequately adopted and implemented for all periods presented in these financial statements.

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

Interest income and expense

Interest income and expenses are recognized in the income statements for the accounting period that belong to, at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. In the calculation of the effective interest rate, the Bank estimates future cash flows considering all contractual terms, but not future credit losses.

Calculation of the effective interest rate includes all paid or received transaction costs, fees and points, which are an integral part of the effective interest rate. Transaction costs include all incremental costs incurred directly in connection with the issuance or acquisition of financial assets or financial liabilities.

Fee and commission income and expense

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

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

Taxation

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

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

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

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

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

Cash and cash equivalents

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

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

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

Financial instruments

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

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

a) Financial assets

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

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

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Method of effective interest rate

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

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

Loans and receivables

Loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". The same arise when the Bank provides money to a debtor with no intention of simultaneous sale of these receivables or selling in the near future.

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

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

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

Financial instruments (continued)

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 33.

Held-to-maturity investments

Bonds and debentures 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 impairment, with revenue recognized on an effective yield basis.

AFS investments

Listed shares and listed redeemable notes 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 34. Gains and losses arising from changes in fair value are recognized directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in profit or loss for the period.

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

Impairment of financial assets

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

For all other financial assets objective evidence of impairment could include:

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

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

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

Impairment of financial assets (continued)

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.

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'. The Bank creates one category of financial liabilities, for which basis of accounting is disclosed below.

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

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

Financial instruments (continued)

b) Financial liabilities and equity instruments issued by the Bank

Other financial liabilities

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

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

The effective interest method is a method of calculating the amortised 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 supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Bank's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use.

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

	2017.	**2016.**
Buildings	1.5%	1.5%
Furniture and vehicles	10% do 15%	10% do 15%
Computers and other equipment	10% -20%	10% -20%

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

Impairment

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

Recoverable amount is the greater of the 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.

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

Impairment (continued)

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 recognised as an expense immediately, unless the relevant asset is land or building 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 recognised for the asset in prior years. Reversal of impairment loss is recognised as income immediately, unless the relevant asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as revaluation increase.

Intangible assets

Intangible assets are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives using rate of 14.3%.

Assets held for sale

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

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

Employee benefits

On behalf of its employees, the Bank pays personal income tax and contributions for pension, disability, health and unemployment insurance, on and from salaries, which are calculated as per the set legal rates during the course of the year on the gross salary. The Bank pays the tax and contributions in the favour of the institutions of the Federation of Bosnia and Herzegovina (on federal and cantonal levels).

In addition, meal allowances, transport allowances and vacation bonuses are paid in accordance with the local legislation. These expenses are recognized in the income statement in the period in which the salary expense is incurred.

Foreign currency translation

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

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

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

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

Provisions

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

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

Borrowing costs

Borrowing costs that are directly attributable to the acquisition construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are included in the cost of procurement of assets, until the assets are substantially ready for its intended use or sale.

All other borrowing costs are charged to the income statement in the period in which they are incurred.

Equity and reserves

Share capital

Share capital includes paid ordinary and preference shares and is expressed in KM at nominal value.

Reserves for credit losses formed from profit

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

Revaluation reserve for investments

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

Earnings per share

The Bank publishes basic and diluted earnings per share.

Basic earnings per share is calculated by dividing the profit or loss for the current period intended to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

During 2017 and 2016 there were no dilution effects.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies, which are described in Note 3, the Management is required to make judgements, 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 year.

Useful lives of property and equipment

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

Impairment losses on loans and receivables

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

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

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

With regard to the financial assets carried at amortised 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;
- methodology and assumptions used to estimate future cash flows are regularly revised, and updated as necessary.

As explained further below, the Bank calculates provisions under FBA rules, as well as estimating impairment allowances under IFRS. The provisions calculated under FBA rules are not recognised by the Bank but form the basis for capital adequacy calculations, and in previous periods, formed the basis for transfers to non-distributable reserves within equity and reserves.

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

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

Impairment losses on loans and receivables (continued)

As of 19th January 2018, Supervisory Board adopted updated Internal Methodology for impairment in accordance with IFRS, with effective implementation date starting from 29th December 2017. The changes in internal methodology was conducted as result of implementation of findings identified during FBA control. The Bank also implemented recommendations stated in Asset Quality Review (AQR) provided during 2017, regarding additional impairment for loan losses in amount of KM 3.7 million.

Regulatory reserves calculated in accordance with FBA regulations

For the purposes of assessing capital adequacy in accordance with local regulations, the Bank also calculates provisions in accordance with the relevant FBA regulations. In accordance with these regulations, the relevant placements are classified into appropriate risk groups, depending on the past due days, the financial position of the borrower and collateral; and are provided for at prescribed rates.

Regulatory provisions include both specific and general provisions. The general provisions is added back as Tier 2 capital in the computation of capital adequacy under FBA rules.

Fair value of financial instruments

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

5. INTEREST INCOME

	2017	2016
Corporate	11,727	7,738
Retail	3,874	3,019
Financial assets available for sale (Note 20)	884	1,024
Factoring income	297	688
Financial assets held to maturity (Note 21)	179	217
Banks	-	3
Other interest	218	89
	17,179	**12,778**

6. INTEREST EXPENSE

	2017	2016
Retail	2,506	1,595
Corporate	1,632	1,148
Subordinated debt	510	213
Other	94	37
	4,742	**2,993**

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

7. FEE AND COMMISSION INCOME

	2017	2016
Fees from payment transactions	3,941	2,320
Fees from services rendered	2,837	2,158
Fees for guarantees issued	428	371
	7,206	**4,849**

8. FEE AND COMMISSION EXPENSE

	2017.	2016.
Payment transactions fees	1,634	891
Other fees to banks	464	427
	2,098	**1,318**

9. OTHER GAINS

	2017	2016
Foreign exchange differences, net	767	223
Gain from rented premises or equipment	424	169
Collected written-off receivables	308	277
Income from dividends	26	33
Gain on sale of disposed equipment	19	36
Impairment of shares related to merger of Lilium Balanced OIF Lilium Global (Note 20.)	(87)	-
Fair value adjustment – financial assets at FVPL (Note 19.)	(38)	97
Decrease in value of shares Eurohouse (Note 19.)	(36)	-
	1,383	**835**

10. OTHER OPERATING INCOME

	2017.	2016.
Income from suspended interest	32	39
Other income	194	45
	226	**84**

11. PERSONNEL EXPENSES

	2017.	2016.
Net salaries	4,032	3,065
Tax and contributions	2,449	1,855
Other	777	788
	7,258	**5,708**

The average number of personnel employed by the Bank during the year ended 31 December 2017 and 2016 was 214 and 162, respectively.

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

12. OTHER ADMINISTRATIVE EXPENSES

	2017.	2016.
Expenses due to Court decisions (Note 27.)	2,348	-
Rent	1,348	625
Services	1,015	605
Equipment and building maintenance	1,002	619
Marketing and representation	629	79
Energy	428	321
Telecommunication services	389	312
Tax expenses	300	230
Material expenses	250	131
Membership fees	159	114
Donations	151	147
Insurance	122	79
Utilities	101	89
Service contracts	76	50
Supervisory board fees	48	67
Subsequently identified other expenses	24	73
Card operations	18	69
Penalties	18	9
Reorganisation and merger	-	123
Other expenses	60	106
	8,486	**3,848**

13. IMPAIRMENT LOSSES AND PROVISIONS

	Note	2017	2016
Loans to customers	18	4,602	1,262
Provisions for litigations	28	270	355
Provisions for commitments and contingencies	28	227	62
Other assets	22	103	212
Provisions for employee benefits	28	16	7
Provisions based on the Collective Agreement	28	(1)	(8)
		5,217	**1,890**

14. INCOME TAX

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

	2017	2016
Current income tax	-	-
Unrecognised deferred tax – temporary difference	-	-
Total tax	-	-

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

14. INCOME TAX (CONTINUED)

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

	2017	2016
(Loss)/ profit before income tax	(3,171)	1,826
Income tax expense, at the statutory rate of 10%	*(317)*	*183*
Effects of non-deductible expenses	170	-
Effects of non-taxable income	(49)	-
Effects of tax losses Moja banka d.d. Sarajevo	-	(183)
Current income tax	-	-
Effective income tax rate	-	-

Responsible bodies of the Bank believe 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 Corporate Income Tax 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. On 4 April 2018, Bank received Report from the Tax Authorities, denying usage of losses of Moja banka d.d., and, consequently, stipulates additional tax obligation in amount of 289 thousand KM (principal and penalty). On 24 April 2018, Bank has filed a complaint to the Tax Authorities, arguing above mentioned facts.

Changes in deferred tax asset can be presented as follows:

	2017	2016
Balance as at 1 January	137	137
Used deferred tax assets	(13)	-
Balance as at 31 December	124	137

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

15. LOSS PER SHARE

	2017	2016
Net result (in KM)	(3,178)	1,826
Weighted average number of shares for the purpose of basic earnings per share	658,695	546,825
Basic (loss)/earning per share (in KM)	**(4.82)**	**3.34**

16. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Current account in domestic currency with the Central Bank of BH	69,502	34,668
Current accounts with other banks	12,171	3,674
Cash in hand in domestic currency	7,348	6,452
Cash in hand in foreign currency	5,941	2,934
	94,962	**47,728**

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

	31 December 2017	31 December 2016
Obligatory reserve with CBBH	40,358	33,297
Special reserves per Article 42a of the Law on Banks	-	21,111
	40,358	**54,408**

In accordance with Law on Banks (articles 42 a.), if a Bank receives payment of public revenues and state deposits, or performing payment transactions on behalf of budget and outbound funds, it is therefore obliged to hold 50% of the daily balance on the special reserve account at CBBiH.

With the new Law on Banks that has come into force in April 2018, Banks are no longer obliged to hold special reserve as prescribed by previous Law article 42 a.

The new Decision on determining and maintaining obligatory reserves and determining CBBiH fee on the amount of obligatory reserve was in effect since July 2016 ("Official Gazette of BH", no. 30/16).

As prescribed in this Decision, base for the calculation of mandatory reserve is deposits and loaned funds, regardless of the currency. Decision prescribes unified rate of 10% that CBBiH applies in calculation of the obligatory reserve.

The Decision also determine that no fee will be calculated for the obligatory reserve amount. For the amount of assets over the obligatory reserve, CBBH calculates fee at the rate equal to 50% of the rate applied by the European Central Bank (ECB) on commercial bank's deposits.

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

18. LOANS AND RECEIVABLES

	31 December 2017	31 December 2016
Short-term loans:		
(including current portion of long-term loans)		
Corporate	131,762	124,366
Retail	17,477	24,833
	149,239	*149,199*
Long-term loans::		
(excluding current portion of long-term loans)		
Corporate	131,381	91,191
Retail	41,858	35,043
	173,239	*126,234*
Total loans before allowance for impairment	***322,478***	***275,433***
Less: Allowance for impairment losses based on individual assessment	(25,715)	(22,883)
Less: Allowance for impairment losses based on group assessment	(6,899)	(5,460)
	289,864	**247,090**

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

	2017	2016
Balance at beginning of the year	**28,343**	**7,669**
Increase, net (Note 13)	4,602	1,262
Write-off	(331)	(662)
Merger (Note 1 and 32)	-	20,074
Balance at end of the year	**32,614**	**28,343**

Weighted average interest rate can be presented as follows:

	31 December 2017	31 December 2016
Corporate	5.79%	5.56%
Retail	10.42%	6.91%

Analysis of loans before allowance for impairment losses by industry:

	31 December 2017	31 December 2016
Trade	111,583	81,464
Agriculture, forestry, mining and industry	69,791	67,183
Citizens	60,145	59,876
Services, finance, sport and tourism	43,052	29,004
Construction industry	22,810	15,325
Governmental institutions, NGO's and other	10,115	6,383
Transport and communications	4,982	16,198
	322,478	**275,433**

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

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	31 December 2017	31 December 2016
Shares:		
Shares of private companies	199	242
Shares of public companies	40	46
Shares of banks	17	22
Shares of non-banking financial institutions	5	66
	261	***376***
Bonds:		
Budgetary expenses FBiHK17A	5,070	5,070
Budgetary expenses	1,022	1,022
Budgetary expenses – B series	647	621
Budgetary expenses – A series	622	598
Budgetary expenses – D series	272	209
Budgetary expenses – E series	173	131
Budgetary expenses – C series	77	63
	7,883	***7,714***
	8,144	**8,090**

Movements in fair value of assets through profit and loss were as follows:

	2017	2016
Balance at beginning of the year	**8,090**	**122**
Purchase during the year	154	-
Decrease of share value Eurohouse (Note 9)	(36)	-
Losses / Gains on fait value adjustments (Note 9)	(38)	97
Decrease	(26)	(6)
Transfer to own shares	-	(498)
Merger effects (Notes 1 and 32)	-	8,375
Balance at end of the year	**8,144**	**8,090**

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

20. FINANCIAL ASSETS AVAILABLE FOR SALE

	31 December 2017	31 December 2016
Debt securities:		
Ministry of Finance FBiH	26,052	30,542
Accrued interest	115	167
	26,167	***30,709***
Investment in funds:		
Open investment fund "Lilium Global" Sarajevo	515	196
Open investment fund "Lilium Cash" Sarajevo	162	162
Open investment fund "Lilium Balanced" Sarajevo	-	377
	677	***735***
Equity securities:		
Bamcard d.d. Sarajevo	219	226
Sarajevo Stock Exchange d.d. Sarajevo	103	103
Security Registry in FBiH	15	15
Vakufska banka d.d. Sarajevo	14	10
Bank Association	9	9
	360	***363***
	27,204	**31,807**

Movements in fair value of these assets were as follows:

	2017	2016
Balance at beginning of the year	**31,807**	**22,250**
Interest (Note 5)	884	1,024
Impairment of shares related to merger Lilium Balanced OIF Lilium Global (Note 9)	(87)	-
Unrealised gain from fair value adjustment	27	127
Decrease, net	(5,427)	(947)
Transfer from financial assets held to maturity (Note 21)	-	8,526
Merger effects (Notes 1 and 32)	-	827
Balance at end of the year	**27,204**	**31,807**

21. FINANCIAL ASSETS HELD-TO MATURITY

	31 December 2017	31 December 2016
Bonds:		
Ministry of Finance FBiH	1,857	1,736
Bonds Municipality Hadžići	10	20
	1,867	**1,756**

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

21. FINANCIAL ASSETS HELD-TO MATURITY (CONTINUED)

Movements in value of assets held-to maturity were as follows:

	2017	2016
Balance at beginning of the year	**1,756**	**23,862**
Interest (Note 5)	179	217
Decrease, net	(68)	(13,822)
Merger effects (Notes 1 and 32)	-	25
Transfer to available for sale financial assets (Note 20)	-	(8,526)
Balance at end of the year	**1,867**	**1,756**

22. OTHER ASSETS AND RECEIVABLES, NET

	31 December 2017	31 December 2016
Receivables from banks	3,289	2,911
Receivables from BH Pošta based on the foreign exchange Contract	2,818	-
Acquired tangible assets	1,570	456
Deposits placed in other banks	1,125	-
Advances paid	513	1,057
Prepaid income tax	219	219
Receivables from government institutions	107	135
Inventories and other office material	62	42
Factoring receivables	-	434
Other	1,724	1,873
	11,427	***7,127***
Less: Impairment allowance	(1,191)	(1,222)
	10,236	**5,905**

Changes in impairment are as follows:

	2017	2016
Balance at 1 January	**1,222**	**165**
Increase of impairment (Note 13)	103	212
Write off	(134)	(169)
Merger (Note 1 and 32)	-	1,014
Balance at 31 December	**1,191**	**1,222**

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

23. TANGIBLE AND INTANGIBLE ASSETS

	Buildings and land	Vehicles	Computer and other equipment	Intangible assets	Leasehold improvements	Investments in progress	Total
COST							
At 31 December 2015	**12,326**	**150**	**4,544**	**2,402**	**68**	**68**	**19,558**
Additions	-	-	-	-	-	891	891
Merger (Note 1 and 32)	2,964	397	4,846	1,631	1,413	10	11,261
Transfer (from)/ to	5	205	352	268	1	(831)	-
Disposals	-	(161)	-	-	-	-	(161)
At 31 December 2016	**15,295**	**591**	**9,742**	**4,301**	**1,482**	**138**	**31,549**
Additions	-	-	-	-	-	1,291	1,291
Transfer (from) / to	-	195	191	592	90	(1,068)	-
Disposals	-	(99)	(110)	-	-	(25)	(234)
Transfer to acquired assets	(1,776)	-	-	-	-	-	(1,776)
At 31 December 2017	**13,519**	**687**	**9,823**	**4,893**	**1,572**	**336**	**30,830**
ACCUMULATED DEPRECIATION							
At 31 December 2015	**7,029**	**150**	**4,095**	**1,586**	**40**	-	**12,900**
Depreciation	197	43	347	343	33	-	963
Merger (Note 1 and 32)	420	258	3,571	1,154	998	-	6,401
Disposals	-	(161)	-	-	-	-	(161)
At 31 December 2016	**7,646**	**290**	**8,013**	**3,083**	**1,071**	-	**20,103**
Depreciation	193	86	556	452	77	-	1,364
Disposals	-	(83)	(110)	-	-	-	(193)
Transfer to acquired assets	(431)	-	-	-	-	-	(431)
At 31 December 2017	**7,408**	**293**	**8,459**	**3,535**	**1,148**	-	**20,843**
NET BOOK VALUE							
At 31 December 2017	**6,111**	**394**	**1,364**	**1,358**	**424**	**336**	**9,987**
At 31 December 2016	**7,649**	**301**	**1,729**	**1,218**	**411**	**138**	**11,446**

Cost of fully depreciated tangible and intangible assets in use is 8,677 thousand KM as of 31 December 2018.

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

24. DUE TO BANKS

	31 December 2017	31 December 2016
Deposits:		
Demand deposits	200	89
Fixed-term deposits	2,500	3,200
	2,700	**3,289**

25. DUE TO CUSTOMERS

	31 December 2017	31 December 2016
Demand deposits:		
Retail:		
In domestic currency	52,002	51,833
In foreign currencies	16,161	17,657
	68,163	*69,490*
Corporate:		
In domestic currency	35,934	25,836
In foreign currencies	3,728	3,563
	39,662	*29,399*
Deposits from non-profit organisations, cantonal government, municipalities etc.:		
In domestic currency	82,751	68,638
In foreign currencies	831	8,597
	83,582	*77,235*
	191,407	**176,124**
Fixed-term deposits:		
Retail:		
In domestic currency	43,318	38,246
In foreign currencies	62,278	56,049
	105,596	*94,295*
Corporate:		
In domestic currency	16,552	6,878
In foreign currencies	493	848
	17,045	*7,726*
Deposits from non-profit organisations, cantonal government, municipalities etc.::		
In domestic currency	59,293	24,870
In foreign currencies	24,651	21,514
	83,944	*46,384*
	206,585	**148,405**
	397,992	**324,529**

As of 31 December 2017, annual interest rates on demand deposits were 0.05% to 0.50% (2016: 0.00% to 0.93%). As of 31 December 2017 annual interest rates on fixed-term deposits of legal entities were 0.10% to 4.80%, or 0.10% to 6.4% for private individuals (2016: from 0.04% to 4.80%).

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

26. SUBORDINATED DEBT

	31 December 2017	31 December 2016
ASA Finance d.d. Sarajevo *(3,000,000 KM, interest rate 8% p.a., maturity 13 December 2018 - loan)*	3,000	3,000
ASA Finance d.d. Sarajevo *(3,000,000 KM, interest rate 5% p.a., maturity 11 August 2020 - bonds)*	3,000	3,000
ASA Finance d.d. Sarajevo *(2,000,000 KM, interest rate 6% p.a., maturity 28 March 2018 - loan)*	2,000	2,000
Accrued interest	58	118
	8,058	**8,118**

27. OTHER LIABILITIES

	31 December 2017	31 December 2016
Card operations	2,263	1,141
Liabilities to employees by Court decisions [1] (Note 12)	1,342	-
Liabilities for inactive accounts	1,204	8
Liabilities to suppliers	344	337
Liabilities for dividends	316	316
Liabilities for undistributed inflows	11	49
Liabilities for managed funds commissions (Note 30)	36	40
Other	454	353
	5,970	**2,244**

(1) In the course of 2017, Bank received Court executive decisions on labour court cases for 69 former and current employees in total amount of 1,964 thousand KM (court expenses, principal and penalties included in the amount), as well as second instance court decisions in total amount of 139 thousand KM. Based on these decisions, the Bank calculated obligatory taxes and contributions on adjudicated principal, and for this purpose registered expenses in amount of 2,348 thousand KM, as well as additional provisioning in 2017 based on Court Decisions in amount of 270 thousand KM (Note 12 and 13). Reported liability as of 31 December 2017 represent unpaid portion of the mentioned liabilities towards former and current employees.

28. PROVISIONS

	31 December 2017	31 December 2016
Provisions for commitments and contingencies	588	361
Provisions for employee benefits	58	57
Provisions for legal proceedings	-	703
Provisions for employee benefits for implementation of the Collective Agreement for the financial sector	-	1
	646	**1,122**

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

28. 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 commitments.

	31 December 2017	31 December 2016
Unused approved loans	15,901	13,149
Performance guarantees	8,825	9,973
Payment guarantees	5,601	3,746
Letters of credit	-	133
	30,327	**27,001**

Movements in provisions were as follows:

	Legal proceedings	Commitments and contingencies	Employee benefits	Provisions for implementation of Collective Agreement	Total
Balance as of 1 January 2016	**215**	**224**	**53**	**12**	**504**
Increase (Note 13)	355	62	7	-	424
Merger (Note 1 and 32)	133	75	-	-	208
Decrease (Note 13)	-	-	-	(8)	(8)
Payments	-	-	(3)	(3)	(6)
Balance as of 31 December 2016	**703**	**361**	**57**	**1**	**1,122**
Increase (Note 13)	270	227	16	-	513
Decrease (Note 13)	-	-	-	(1)	(1)
Payments	(973)	-	(15)	-	(988)
Balance as of 31 December 2017	**-**	**588**	**58**	**-**	**646**

According to Bank's records, the value of claims of former and current employees as of 31 December 2017 was 390 thousand KM. Bank did not make provisions due to claims, because Management believes that disputes will be resolved in settlement and in amount that is not material for the Bank.

On 4 April 2018, Bank received Bank received Report from the Tax Authorities, denying usage of losses of Moja banka d.d., and, consequently, stipulates additional tax obligation in amount of 289 thousand KM (principal and penalty). On 24 April 2018, Bank has filed a complaint to the Tax Authorities, arguing above mentioned facts.

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

29. SHARE CAPITAL

Share capital as of 31 December 2017 consists of 658,695 ordinary shares at nominal value of 100 KM.

	31 December 2017		31 December 2016	
	'000 KM	% of ownership	'000 KM	% of ownership
ASA Finance d.d. Sarajevo	30,964	47.01%	30,964	47.01%
ZIF "prevent INVEST" d.d. Sarajevo	7,548	11.46%	7,548	11.46%
E-MARDIN d.o.o. Sarajevo	4,015	6.10%	-	-
Validus d.d. Varaždin – u stečaju	1,780	2.70%	1,780	2.70%
Almy d.o.o. Zenica	1,403	2.13%	1,403	2.13%
Raiffeisen bank d.d. BiH	1,337	2.03%	1,566	2.40%
ZIF "PROF-PLUS" d.d. Sarajevo	1,010	1.53%	1,010	1.53%
Other shareholders	17,813	27.04%	21,599	32.77%
	65,870	**100.00%**	**65,870**	**100.00%**

30. MANAGED FUNDS

The funds for which the Bank acts as commissioner for and of behalf of third party are not Bank's assets and therefore are not the part of financial statements. Analysis of managed funds is presented as follows:

	31 December 2017	31 December 2016
PLACEMENTS		
Corporate	9,617	9,486
Retail	2,787	3,065
	12,404	**12,551**
SOURCES:		
Zenica - Doboj Canton	10,036	10,186
Sarajevo Canton	1,940	1,951
Others	464	454
	12,440	**12,591**
Current obligations due to Managed funds (Note 27)	**36**	**40**

In accordance with agreement signed between government of Zenica – Doboj Canton and Sarajevo Canton with the Bank, the Bank has placed 9,617 thousand KM as landing funds to legal entities and 2,787 thousand KM to individuals, for investment in apartments construction for third parties, employment incentive and agriculture.

In accordance with above mentioned agreements the Bank is obliged to place these funds to third parties. Sources bear all the risk in full.

31. RELATED PARTY TRANSACTIONS

In accordance with the requirements of the International Accounting Standard 24 "Related Party Disclosures" A related party is a person or entity that is related to the entity that is preparing its financial statements:

(a) A person or a close member of that person's family is related to a reporting entity if that person:

(i) has control or joint control of the reporting entity;

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

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

31. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

As at 31 December 2017 and 2016 balance outstanding with related parties comprised:

	31 December 2017			31 December 2016		
	Loans	**Off-balance sheet exposure**	**Total**	**Loans**	**Off-balance sheet exposure**	**Total**
Employees	2,116	293	2,409	2,001	316	2,317
Shareholders	5,969	507	6,476	4,716	255	2,971
	8,085	**800**	**8,885**	**6,717**	**571**	**7,288**

During the year of 2017, the Bank had income with related parties in amount of KM 1,185 thousand, and expenses in amount of KM 1,348 thousand.

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

Directors' remuneration

The remuneration of directors and other key management personnel during the year ended 31 December 2017 may be presented as follows:

	2017	**2016**
Compensation for directors and other key management personnel	443	399
Taxes and contributions and other compensations	255	183
	698	**582**

32. BUSINESS COMBINATIONS

During the year of 2016 the Bank was a subject of business combination – merger of Moja banka d.d. Sarajevo and Investiciono-komercijalna bank d.d. Zenica. Upon obtaining necessary approvals for business combination, Assemblies of both Banks adopted decision on merger on 20 June 2016, as well as other relevant documentation defined by the Law on Companies of the Federation of Bosnia and Herzegovina.

At 31 July 2016 merger of Moja banka d.d. Sarajevo and Investiciono-komercijalnoj banci d.d. Sarajevo has been 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 KM 65,869,500, comprising of 658,695 shares with nominal value of KM 100 per share. Out of the total number of shares, 8,604 are treasury (own) shares that the successor bank acquires by force of law during the status change – merger, and they have a special status. In exchange for 597,798 ordinary shares of Moja banka d.d. Sarajevo, after share swap, the successor Bank issues 194,794 ordinary shares class „A", series 0 with total nominal value of KM 19,479,400, and nominal value of KM 100 per share. During the swap of ordinary shares of Moja banka d.d. Sarajevo in the determined ratio, the existing shareholders who did not have a rounded number of shares, the shares were rounded to a higher number instead of additional payment for shares and/or payment to shareholders. This was completed in a manner that the amount of full share was settled from the reserve fund, i.e. to the nominal value of share of KM 100, for 94 ordinary shares with nominal value of KM 100 per share, in total amount of KM 9,400.

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

32. BUSINESS COMBINATIONS (CONTINUED)

Balance sheet of Moja banka d.d. Sarajevo as of 31 July 2016 is presented below:

	31 July 2016
ASSETS	
Cash and cash equivalents	44,627
Obligatory reserves with the CBBH	17,316
Loans and receivables, gross	124,476
Impairment of given loans and receivables (Note 18)	(20,074)
Financial assets available-for-sale (Note 20.)	827
Financial assets at FVTPL (Note 19.)	8,375
Financial assets held to maturity (Note 21.)	25
Other assets, gross	4,981
Impairment of other assets (Note 22.)	(1,014)
Tangible and intangible assets (Note 23.)	4,860
TOTAL ASSETS	**184,669**
LIABILITIES	
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**
EQUITY	
Share capital	29,890
Statutory reserves	1,621
Revaluation reserves for investments	(68)
Accumulated losses	(13,891)
Total equity	**17,552**
TOTAL EQUITY AND LIABILITIES	**184,669**

33. FINANCIAL INSTRUMENTS

a) Capital risk management

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

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

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

33. FINANCIAL INSTRUMENTS (CONTINUED)

a) Capital risk management (continued)

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

	31 December 2017	31 December 2016
Debt	408,750	335,936
Capital	67,380	69,065
Net debt to capital ratio	**6.07**	**4.86**

Debt is defined as liabilities toward clients, other banks and financial institutions presented in detail in Notes 24, 25 and 26. Capital includes share capital and accumulated losses.

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

FBA requires each bank to: (a) hold the minimum level of the share capital and the lowest level of net capital (regulatory capital) of KM 15 million, and (b) maintain a ratio of total regulatory capital to the risk-weighted asset at or above the minimum of 12%.

On 30 May 2014, FBA issued new Decision on minimum standards for capital management of banks and capital hedge, effective for 2014. According to this decision the Bank's net-capital is divided into two tiers:

- Tier 1 capital or Core Capital; share capital, share premium and accumulated losses, reduced by negative revaluation reserves, intangible assets and deferred tax assets;
- Tier 2 capital or Supplementary Capital: general regulatory reserves in accordance with FBA regulations (calculated for regulatory reporting only), increased by positive revaluation.

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.

At 31 December 2017 and 31 December 2016 the Bank fulfilled the externally imposed capital requirements. At 31 December, capital adequacy of the Bank amounted to 15.4% (2016: 20.2%).

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

33. FINANCIAL INSTRUMENTS (CONTINUED)

Capital adjustment plan

As of 31 December 2017, the ratio "tangible assets/Core capital" amounted to 17.15% (31 December 2016: 17.49%). According to the Law on Banks, total bank's investments into tangible assets may not exceed 40% of the core capital.

Share capital and total risk assets ratio amounts to 20.2% (31 December 2016: 23.7%), which means that the Bank has provided security instruments. Financial leverage ratio at 31 December 2017 amounts to 12.9% (31 December 2016: 15.1%). According to FBA Decision on Capital Requirements, Bank is obliged to ensure and maintain financial leverage rate in minimum amount of 6%.

	31 December 2017	31 December 2016
Tier 1 capital		
Share capital	65,870	65,870
Statutory reserves	124	1,612
Other reserves	5,867	5,867
Retained earnings carried forward from previous years	-	4
Uncovered losses carried forward from previous years	(1,643)	(1,160)
Current year loss	(3,178)	(2,313)
Carrying amount of treasury shares	-	(2,953)
Deferred tax assets	(124)	(137)
Negative revaluation reserves	(96)	(115)
Less: Intangible assets	*(1,570)*	*(1,219)*
Total tier 1 capital	**65,250**	**65,456**
Tier 2 capital		
General regulatory reserves under FBA rules	4,035	3,453
Subordinated debt	1,566	3,831
Positive revaluation reserves based on effects of changes in fair value of assets	204	195
Total tier 2 capital	**5,805**	**7,479**
Deductions from capital		
Investments that exceed 5% of basic capital	-	-
Adjustment for shortfall in regulatory reserves	(21,326)	(17,216)
Net capital	**49,729**	**55,719**
Risk Weighted Assets (unaudited)	299,039	252,780
Weighted Operational Risk (unaudited)	23,740	23,457
Total weighted risk	**322,779**	**276,237**
Capital adequacy (%)	**15.4**	**20.2**

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

33. FINANCIAL INSTRUMENTS (CONTINUED)

b) Significant accounting policies

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

c) Categories of financial instruments

	31 December 2017	31 December 2016
Financial assets		
Loans and receivables:		
Cash and cash equivalents (including Obligatory reserves with the CBBH)	135,320	102,136
Loans to clients, net	289,864	247,090
Financial assets at FVTPL	8,144	8,090
Financial assets available-for-sale	27,204	31,807
Financial assets held to maturity	1,867	1,756
	462,399	**390,879**
Financial liabilities		
At amortized cost:		
Borrowings and liabilities to banks	2,700	3,289
Subordinated debt	8,058	8,118
Due to customers	397,992	324,529
	408,750	**335,936**

d) Financial risk management objectives

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

e) Market risk

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

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

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

33. FINANCIAL INSTRUMENTS (CONTINUED)

f) Foreign currency risk management

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

	KM	EUR	USD	CHF	Other	Total
As of 31 December 2017						
ASSETS						
Cash and balances with other banks	76,850	13,901	1,867	1,102	1,242	94,962
Obligatory reserves with the CBBH	40,358	-	-	-	-	40,358
Loans to customers, net	134,740	155,124	-	-	-	289,864
Financial assets at FVTPL	8,144	-	-	-	-	8,144
Financial assets held to maturity	1,867	-	-	-	-	1,867
Financial assets available-for-sale	27,204	-	-	-	-	27,204
Other assets	5,931	4,305	-	-	-	10,236
Total	**295,094**	**173,330**	**1,867**	**1,102**	**1,242**	**472,635**
LIABILITIES						
Due to other banks and financial institutions	2,700	-	-	-	-	2,700
Amounts due to customers	229,282	165,249	1,846	963	652	397,992
Other financial liabilities	5,969	-	-	-	-	5,969
Subordinated debt	8,058	-	-	-	-	8,058
Total	**246,009**	**165,249**	**1,846**	**963**	**652**	**414,719**
As of 31 December 2016						
Total monetary assets	**231,283**	**161,819**	**1,523**	**1,156**	**1,003**	**396,784**
Total monetary liabilities	**189,342**	**145,549**	**1,513**	**1,060**	**716**	**338,180**

Foreign currency sensitivity analysis

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

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

	USD Effect		CHF Effect	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Profit/(loss)	2	-	14	2

33. FINANSIJSKI INSTRUMENTI (NASTAVAK)

g) Interest rate risk management

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

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

Interest rate sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Bank' net result for the year ended 31 December 2017 would decrease / increase by KM 554 thousand (2016: KM 404 thousand).

h) Credit risk management

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

The Bank's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee on a monthly basis.

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

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

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

33. FINANCIAL INSTRUMENTS (CONTINUED)

h) Credit risk management (continued)

Financial assets

	Total gross carrying amount	Unimpaired assets	Individually impaired assets	Individual impairment allowance	Collective impairment allowance	Total net carrying amount
As of 31 December 2017						
Cash and balances with other banks	94,962	94,962	-	-	-	94,962
Obligatory reserves with the CBBH	40,358	40,358	-	-	-	40,358
Loans to customers, net	322,478	-	322,478	(25,715)	(6,899)	289,864
Financial assets at FVTPL	8,144	8,144	-	-	-	8,144
Financial assets held to maturity	1,867	1,867	-	-	-	1,867
Financial assets available-for-sale	27,204	27,204	-	-	-	27,204
	495,013	**172,535**	**322,478**	**(25,715)**	**(6,899)**	**462,399**
As of 31 December 2016						
Cash and balances with other banks	47,728	47,728	-	-	-	47,728
Obligatory reserves with the CBBH	54,408	54,408	-	-	-	54,408
Loans to customers, net	275,433	-	275,433	(22,883)	(5,460)	247,090
Financial assets available-for-sale	31,807	31,807	-	-	-	31,807
Financial assets at FVTPL	8,090	8,090	-	-	-	8,090
Financial assets held to maturity	1,756	1,756	-	-	-	1,756
	419,222	**143,789**	**275,433**	**(22,883)**	**(5,460)**	**390,879**

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

33. FINANCIAL INSTRUMENTS (CONTINUED)

h) Credit risk management (continued)

Credit exposure and collateral

	Credit risk exposure		
	Net exposure	Loan commitments / Guarantees	Fair value of collateral
As of 31 December 2017			
Cash and balances with other banks	94,962	-	-
Obligatory reserves with the CBBH	40,358	-	-
Loans to customers, net	289,864	30,327	505,941
Financial assets at FVTPL	8,144	-	-
Financial assets available-for-sale	27,204	-	-
Financial assets held to maturity	1,867	-	-
	462,399	**30,327**	**505,941**
As of 31 December 2016			
Cash and balances with other banks	47,728	-	-
Obligatory reserves with the CBBH	54,408	-	-
Loans to customers, net	247,090	27,001	483,709
Financial assets available-for-sale	31,807	-	-
Financial assets at FVTPL	8,090	-	-
Financial assets held to maturity	1,756	-	-
	390,879	**27,001**	**483,709**

Fair value of the collaterals

	31 December 2017	31 December 2016
Real estate	462,375	440,850
Movable properties	35,872	38,372
Deposits	7,694	4,487
Total	**505,941**	**483,709**

Arrears

	Total gross loans to clients	Not due	Up to 30 days	31 to 90 days	91 to 180 days	181 to 270 days	Over 270 days
31 December 2017							
Corporate	263,142	219,157	1,319	327	1,130	140	41,069
Retail	59,336	51,575	247	41	159	113	7,201
Total	**322,478**	**270,732**	**1,566**	**368**	**1,289**	**253**	**48,270**
31 December 2016							
Corporate	215,558	176,472	1,079	3,215	850	671	33,271
Retail	59,875	52,019	280	113	130	50	7,283
Total	**275,433**	**228,491**	**1,359**	**3,328**	**980**	**721**	**40,554**

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

33. FINANCIAL INSTRUMENTS (CONTINUED)

i) Liquidity risk management

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

Liquidity and interest risk tables

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

Maturity for financial assets

	Weighted average effective interest rate	Less than 1 month	2 to 3 months	4 months to 1 year	2 to 5 years	5+ years	Total
31 December 2017							
Non-interest bearing		78,721	-	-	-	23	78,744
Variable interest rate instruments	3.48%	74,349	47,974	44,486	84,658	36,055	287,522
Fixed interest rate instruments	2.55%	35,732	11,133	17,770	18,841	1,362	84,838
		188,802	**59,107**	**62,256**	**103,499**	**37,440**	**451,104**
31 December 2016							
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**

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

Maturity for financial liabilities

	Weighted average effective interest rate	Less than 1 month	2 to 3 months	4 months to 1 year	2 to 5 years	5+ years	Total
31 December 2017							
Non-interest bearing		5,641	35	1,377	206		7,259
Variable interest rate instruments	0.42%	137	0	152,102	0	0	152,239
Fixed interest rate instruments	0.44%	13,842	7,367	109,721	120,163	2,253	253,346
		19,620	**7,402**	**263,200**	**120,369**	**2,253**	**412,844**
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	4.80%	3,319	8,821	35,155	53,468	1,572	102,335
		185,637	**15,318**	**54,817**	**91,670**	**2,914**	**350,356**

The Bank expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

34. FAIR VALUE MEASUREMENT

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

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

Financial assets / financial liabilities	Fair value as at 31 December 2017	Fair value as at 31 December 2016	Fair value hierarchy	Valuation techniques and key inputs
1) Financial assets as at FVTPL (see Note19)	Equity securities listed on a stock exchange in Bosnia and Herzegovina: • Shares of private and public companies, banks and non-banking financial institutions– KM 261 thousand. Debt securities listed on a stock exchange in Bosnia and Herzegovina: • FBiH Government bonds – KM 7,883 thousand.	Equity securities listed on a stock exchange in Bosnia and Herzegovina: • Shares of private and public companies, banks and non-banking financial institutions – 376 thousand KM Debt securities listed on a stock exchange in Bosnia and Herzegovina: • FBiH Government bonds – KM 7,714	Level 1	Quoted bid prices in an active market.
2) Financial assets held for sale (see Note 20.)	Equity securities listed on a stock exchange in Bosnia and Herzegovina: • Bamcard d.d. Sarajevo – KM 219 thousand • Vakufska banka d.d. Sarajevo – KM 10 thousand • Sarajevo Stock Exchange d.d. – KM 103 thousand • Securities Registry of FBiH – KM 15 thousand.	Equity securities listed on a stock exchange in Bosnia and Herzegovina: • Bamcard d.d. Sarajevo – KM 226 thousand • Vakufska banka d.d. Sarajevo - KM 10 thousand • Sarajevo Stock Exchange d.d. – KM 103 thousand • Securities Registry of FBiH – KM 15 thousand.	Level 1	Quoted bid prices in an active market.
	Debt securities listed on a stock exchange in Bosnia and Herzegovina: • FBiH Government bonds– KM 26,167 thousand Share in investment funds: Open investment funds – KM 677 thousand.	Debt securities listed on a stock exchange in Bosnia and Herzegovina: • FBiH Government bonds – KM 30,709 thousand Share in investment funds: • Open investment funds – KM 735 thousand	Level 2	Prices derived from prices of other similar assets quoted on active market

34. FAIR VALUE MEASUREMENT (CONTINUED)

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

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

	31 December 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and receivables:				
- loans to customers	289,864	287,021	247,090	244,983
- Financial assets held to maturity	1,867	2,186	1,756	1,756
Financial liabilities				
At amortised cost:				
- due to customers, other banks and financial institutions	397,991	401,475	324,529	331,689
- Subordinated debt	8,058	7,741	8,118	7,832

	Fair value hierarchy as of 31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and receivables:				
- loans to customers	-	287,021	-	287,021
- Financial assets held to maturity	2,186	-	-	2,186
	2,186	**287,021**	**-**	**289,207**
Financial liabilities				
At amortised cost:				
- Due to customers, other banks and financial institutions	-	401,475	-	401,475
- Subordinated debt	-	7,741	-	7,741
	-	**409,216**	**-**	**409,216**

The fair value of financial assets and liabilities included in the above categories of Level 2 were determined according to generally accepted models of assessment based on an analysis of discounted cash flows, the discount rate as most important input data, which reflects the credit risk of counterparties. As the discount rate used in the weighted average interest rate on the state level, published by CBBH separately for legal entities and individuals.

35. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management as of 27 April 2018:

Samir Mustafić
Director

ASA BANKA DIONIČKO DRUŠTVO SARAJEVO
ASA® BANKA
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Azemina Smailbegović
Director of Finance and Accounting