ANNUAL REPORT

2016

SPARKASSE BANK

CONTENTS

BANK PROFILE

Sparkasse Bank dd BiH
Account: 1990000000000023
ID: 4200128200006
SWIFT: ABSBBA 22

Headquarter
Zmaja od Bosne 7 71000 Sarajevo
E-mail: info@sparkasse.ba
Tel: 00 387 33 280 300
Fax: 00 387 33 280 230
www.sparkasse.ba

General data (2016)

Year of establishment:	1999
Assets:	1,2 billion BAM
Owner:	Steiermärkische Sparkasse (97%)
BNumber of branches:	41
Number of ATMs:	90
Number of employees:	521

Management Board

CEO
Sanel Kusturica

Executive Director
Nedim Alihodžić

Executive Director
Amir Softić

Supervisory Board

President
Sava Dalbokov

Members
Ismeta Čardaković
Georg Bucher
Renate Ferlitz
Gerhard Maier

Group members in BiH

SPARKASSE Leasing
Company for leasing of vehicles, machinery and vessels

PREMIUM
Insurance brokerage company

MANAGEMENT BOARD

Executive director

Amir Softić

Responsible for the following functions:
- Risk Management Division
- Directorate of Legal Affairs
- Directorate of Accounting and Controlling
- Directorate for Prevention of Money Laundering and Terrorism Financing (AMLTF)
- Directorate for Operational Risks and Information Security

CEO

Sanel Kusturica

Responsible for the following functions:
- Retail Division
- Processing Division
- Directorate for Human Resource Management
- Directorate for Marketing, Communication and Quality of Service
- Directorate of Secretariat and Regulatory Compliance

Executive director

Nedim Alihodžić

Responsible for the following functions:
- Directorate of IT/ORG
- Directorate for Security and Property Management
- Corporate Division
- Treasury Division

WORDS FROM THE CEO

Our good results are the consequence of the continuity of responsible business, sustainable growth and long-term stability

Dear all,

it is my pleasure to address you after completion of one of the most successful business years for Sparkasse Bank.

2016 is a year in which it was not easy to do business. The situation in the real sector, the number of internal problems caused by the political situation in the country and sluggishness in structural reforms continue to affect the stagnation of the main economic indicators and persistence of low credit and investment ratings.

In spite of all negative impacts, the banking sector in 2016 recorded positive trends that are reflected in growth of balance sheet sum, deposits, loans, and in particular household savings, as well as improving profitability. Based on all of the mentioned, it can be concluded that the banking sector remained stable, adequately capitalized and liquidity remained satisfactory.

However, there are still significant weaknesses that require strengthening of the institutional, regulatory and supervisory framework, considering that maintaining the stability of the financial sector is a basic condition for macro-financial stability, which in turn is a prerequisite for economic growth.

In 2016, Sparkasse Bank managed to achieve the set of key strategic goals. Over the past year, as in the years before, we achieved growth above the market average in almost all business segments. We have succeeded in re-establishing our long-term stability and reliability through key financial indicators. We have been one of the most active creditors in the banking sector, which is confirmed by our credit growth of 6.1%. Consequently, the bank's loan portfolio increased to BAM 934 million and assets to almost BAM 1.2 billion. At the same time, we maintained a high quality of the loan portfolio, so the share of NPL is less than 10%, with total provisions coverage of almost 100%, which makes us one of the leaders in the market. When talking about household savings, the growth in savings in the previous year was close to 10%. From year to year, we have a steady increase in growth of savings, which confirms that Sparkasse Bank has become a well-established and reliable partner to BiH citizens.

We were intensively lending to companies, growth in credit portfolio is led by loans to SME companies as well as investment loans. The growth of loans to legal entities was led by loans to SME segment, which increased by 5.6%, of which investment loans grew by over 30%. In 2016, we directed more than 70% of total loans of Sparkasse Bank to legal entities and this figure confirms our readiness to be an active partner to businessmen and support economic growth.

Our dynamic market activity and growth of all key performance indicators have resulted in profit that confirms that 2016 is the most successful business year so far.

As in the previous years, Sparkasse Bank, with its parent group Steiermärkische Sparkasse, has been determined to reinvest profits in domestic economy, so the profit is directed at raising capital by 13.8%. This strategy, with a high level of stability and capital adequacy, enables us to intensify credit activity to support the economy and citizens of BiH and to continue long-term and sustainable growth in the future.

The greatest and most important acknowledgment of the quality of our work is the one that comes from our clients. Researches made by renowned independent external agencies show that Sparkasse Bank has the highest level of service satisfaction in the segment of small and medium-sized enterprises in BiH, and recently we have received awards for the best quality of services to legal entities in BiH. Researches also confirm that our clients who belong to the segment of individuals are among the most satisfied in the market, and that we have the highest quality service index in line with the leading banks.

In addition to all the above mentioned, I would particularly emphasize our persistence in socially responsible activities through support to social entrepreneurship, sport, marginalized groups and various educational projects.

Finally, the inevitable part that confirms the story of this extremely successful business year is a remarkable improvement within our Sparkasse team. We increased the number of employees, invested in expansion of the ATM network, worked to improve the infrastructure of our business network and implemented the most up-to-date electronic services and banking practices. Professionalism, expertise, commitment to the success and loyalty of our team in 2016 came to the fore more than ever before.

We continue to invest in our human resources, because we believe that our employees and investments in development of their competencies are the key to our success.

The trust and support of our shareholders, partners and clients is what has largely enabled us to do this, so I thank you on behalf of the Management Board and the entire team of Sparkasse Bank.

CEO of Sparkasse Bank
Sanel Kusturica

NEW SLOGAN

In 2016, the bank adopted a new slogan "We understand each other" which reflects our effort to build a relationship of understanding in all fields: in our team, with clients, with partners and ultimately with the community in which we operate.

Razumijemo se

The client is always at the center of our attention

We are always listening and trying to understand the needs of our clients and work on product development and standardization of the quality of services to effectively contribute to the achievement of their goals. Through the synergy of our professional knowledge and qualitative services, we offer greater value to our clients and we provide our services in a professional, open and friendly manner. Our clients return this to us with their loyalty.

Successful business with respecting professional ethics

We are continuously achieving our goals, but in a way that we build a relationship of understanding and trust with our clients. Each of our employees takes over responsibility and with high competence and professional knowledge responds to all demands that our clients and markets require from us. Our customer base is constantly growing as the market recognized us as trusted and stable partner, supported by a strong European group and top banking standards. Also, it is equally important for us to retain the clients who have already given their trust to us.

Benefits for the community

We strongly believe that as an institution we can only be successful in a community that is also successful, so we realize that it is necessary to economically empower the most vulnerable groups in the society. Therefore, part of our profits is always returned to the community, but not only through financial support where it is most needed, but also by encouraging education, social business and employment. The community has recognized us as such - we are proud owner of the reward for a socially responsible company.

Transparent and fair business

We allow our clients and partners access to all the information they need to understand our way of doing business. Our offer is transparent and fair, with clear features and product prices, and our products are simple, understandable and reachable to all target groups.

Only in this way we are able to provide well established consulting and support to our clients in making financial decisions, which is our core role. According to the researches, our clients are among the most satisfied customers in the banking market and always have available communication with us.

Team work and open communication

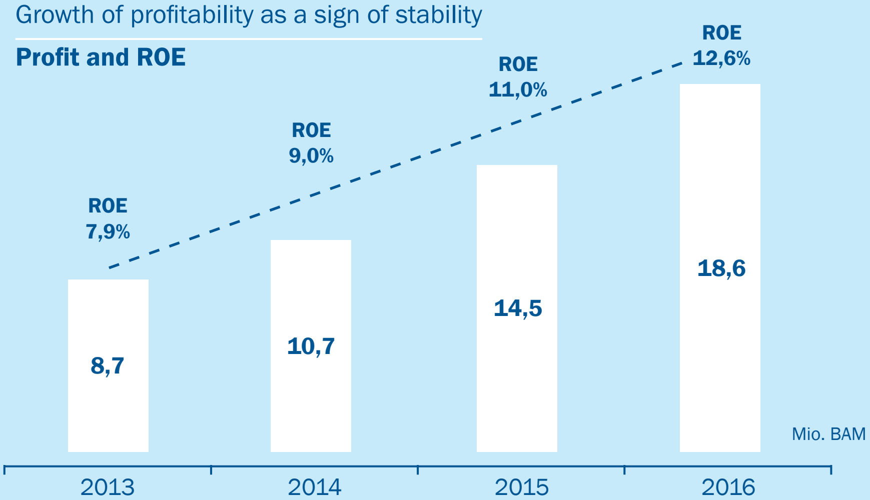
We are aware that our clients will understand our values and accept us as a long-term partner only if we have strong internal community, constructive co-operation and respect for man.

All our internal activities are aimed at creating a climate in which employees will experience Sparkasse as their family and feel safe in it.

KEY PERFORMANCE INDICATORS

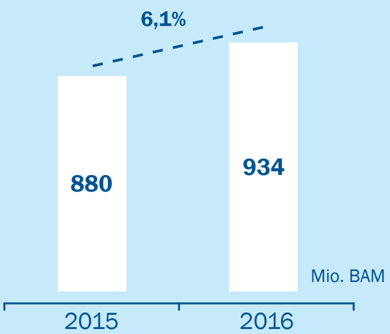
Growth of profitability as a sign of stability

Profit and ROE



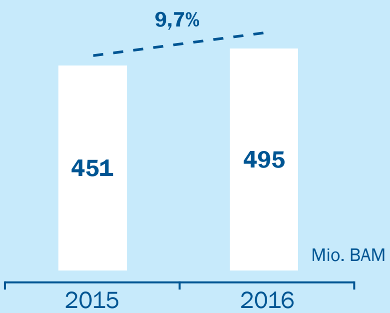
Encouraging economic growth through active lending policy

Loans



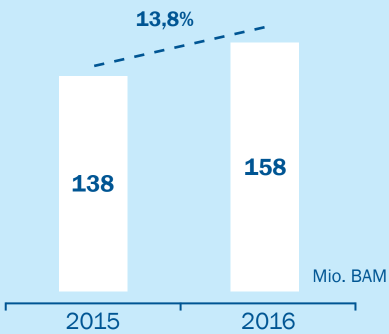
Growth of deposits as a sign of increasing trust in Sparkasse

Household savings



Reinvesting of profit in increase of capital base

Capital



Quality Service Index for segment of individuals

Satisfaction index for segment of individuals

Satisfaction of individuals

Recommendations of legal entities

IMAS – research of services provided to companies in 2016

1st place considering recommendations

ICERTIAS research - Qudal gold medal 2016

No.1 in quality of services provided to legal entities

SOCIAL RESPONSIBILITY PROJECTS

This year, Sparkasse Bank continued its strong support of positive projects that strengthen the community in which it operates.

So in 2016, we supported over 60 projects from carefully chosen from various fields, and below we present only some of them.

Sparkasse Bank supported business ideas of young people

Sparkasse Bank has supported the project “Social Reform Award (SIA)”, a project in which young people make suggestions for establishing social businesses with their ideas. At the ceremony in Sarajevo, three cash prizes were awarded for the best business ideas.

The ultimate goal of this project is to stimulate entrepreneurial spirit in young people and to help them to ultimately realize their business ideas, and also economically strengthen and become independent.

The Social Reform Award (SIA) is the largest program to encourage students to launch social businesses in Europe and is implemented simultaneously in 12 countries. This project in BiH is led by the Dukukino Foundation with a large number of partners, following the mission of promoting social entrepreneurship among students.

In addition to financial support, Sparkasse Bank also provided mentoring in thematic workshops.

Sparkasse Bank financed construction of a children’s playground and fitness center for the elderly

Recognizing the needs of young and elderly persons, Sparkasse Bank joined the initiative of the municipality of Novo Sarajevo and helped with donation for the construction of a children’s playground and fitness center for the elderly.

Bearing in mind that this type of playground does not exist at this location where a large number of people live, we are very happy because of the fact that we can financially assist in construction of such a project that will enliven the elderly and children.

Scholarships for elementary school students

In 2016, we also supported the work of the Hastor Foundation by devolving funds into scholarships for four primary school students in BiH.

The Hastor Foundation is the largest in the area of BiH with as many as 1393 scholars in 2015/2016 and a plan to increase this number to 1700 in 2017.

The mission of this project is to pool financial and human resources together as well as their fair and efficient spending in development of education.

SOCIAL RESPONSIBILITY PROJECTS

Employees of Sparkasse Bank volunteered for the children of Mjedenica

Employees of Sparkasse Bank have organized a volunteer day for socializing with children who are residents of Mjedenica Institute at the location of the Riders of Hope Horse Club.

The aim of Sparkasse Bank was to connect these two associations to enable the residents of Mjedenica to enjoy therapeutic riding which is a useful element in their development,

An exceptionally nice socializing of the bank employees, children from Mjedenica and members of the Horse Club remained in a beautiful memory of all the participants in the desire to continue these projects in the years to come.

Sparkasse Bank provided students with a one-year study/practice in Austria

Already known Best of South East project is also a positive example in this year. The Project provides one-year study/practice in Austria for graduates and students of Economics and Law universities from BiH.

In cooperation with our Austrian parent company Steiermarcheche Sparkasse and the Karl-Frenzens University of Graz, this year Sparkasse Bank enabled students from BiH to acquire international experience that would enrich them and motivate for successful return to their home country of BiH.

The promotion of such projects is very important because young people from BiH are increasingly aware of the need to be active, open to new opportunities and acquire new knowledge.

Scholarships provided by Sparkasse Bank cover full cost of stay in Austria including accommodation, tuition fees, health insurance and pocket money.

BEST OF SOUTH EAST

SPARKASSE BANK DD BIH

Financial statements

for the year ended

31 December 2016

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Responsibility for the financial statements

Pursuant to the Law on Accounting and Auditing of Federation of Bosnia and Herzegovina (“Official Gazette of Federation of Bosnia and Herzegovina”, no. 83/09), the Management Board is responsible for ensuring that financial statements are prepared for each financial period in accordance with International Financial Reporting Standards (IFRS) which give a true and fair view of the state of affairs and results of Sparkasse Bank dd BiH (the “Bank”) and its related companies (together the “Group”) for that period. IFRS are published by the International Accounting Standards Board (IASB).

After making enquiries, the Management Board has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, the 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;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

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

Signed on behalf of the Management Board

Sanel Kusturica
Director

Sparkasse bank d.d. BiH
Zmaja od Bosne 7
71000 Sarajevo
Bosnia and Herzegovina

28 March 2017

Independent Auditor's Report

To the Shareholders of Sparkasse Bank dd BiH

We have audited the accompanying consolidated financial statements of Sparkasse Bank dd BiH (the "Bank") and its related companies (together referred to as: the "Group"), set out on pages 4 to 48, which comprise of the consolidated statement of financial position as at 31 December 2016 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. Also, we have audited the accompanying unconsolidated financial statements of Sparkasse Bank dd BiH (the "Bank"), which comprise of the unconsolidated statement of financial position as at 31 December 2016, and the unconsolidated statement of profit or loss and other comprehensive income, unconsolidated statement of changes in equity and unconsolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group and the Bank as of 31 December 2016, and their financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte d.o.o.
Sead Bahtanović, director and licensed auditor

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

Adnan Bahtanović, licensed auditor

Sarajevo, Bosnia and Herzegovina
28 March 2017

Sparkasse Bank dd BiH

Statement on cash flow for the year ending 31 December 2016

(all amount are expressed in thousand KM, unless otherwise stated)

	Notes	Group 2016.	Group 2015.	Bank 2016.	Bank 2015.
Interest and similar income	5	55.574	55.333	55.574	55.333
Interest and similar expenses	6	(11.566)	(12.904)	(11.566)	(12.904)
Net interest income		**44.008**	**42.429**	**44.008**	**42.429**
Fee and commission income	7	21.789	19.592	21.789	19.592
Fee and commission expense	8	(3.359)	(2.694)	(3.359)	(2.694)
Net fee and commission income		**18.430**	**16.898**	**18.430**	**16.898**
Foreign exchange gains, net	9	2.269	2.264	2.269	2.264
Other operating income	10	2.042	2.092	2.147	2.192
Operating income		**4.311**	**4.356**	**4.416**	**4.456**
Personnel expenses	11	(17.626)	(18.137)	(17.626)	(18.137)
Depreciation and amortization	24, 25	(3.666)	(3.237)	(3.666)	(3.237)
Other administrative expenses	12	(18.026)	(17.582)	(18.026)	(17.582)
Operating expenses		**(39.318)**	**(38.956)**	**(39.318)**	**(38.956)**
Profit participation in associates	21	**823**	**558**	-	-
PROFIT BEFORE IMPAIRMENT LOSSES, PROVISIONS AND INCOME TAX		**28.254**	**25285**	**27.536**	**24.827**
Impairment losses and provisions	13	(6.169)	(10.983)	(6.169)	(10.983)
Other provisions	14	(2.055)	413	(2.055)	413
Collected written off receivables		1.436	1.682	1.436	1.682
PROFIT BEFORE TAXATION		**21.466**	**16.397**	**20.748**	**15.939**
Income tax	15	(2.063)	(1.471)	(2.063)	(1.471)
NET PROFIT FOR THE YEAR		**19.403**	**14.926**	**18.685**	**14.468**
Other comprehensive income / (loss)					
Changes in fair value of financial assets available-for-sale, net		429	(466)	429	(466)
TOTAL COMPREHENSIVE INCOME		**19.832**	**14.460**	**19.114**	**14.002**
Earnings per share (in KM)	16	**22,44**	**17,26**	**21,61**	**16,73**

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

Sparkasse Bank dd BiH

Statement on cash flow for the year ending 31 December 2016

(all amount are expressed in thousand KM, unless otherwise stated)

	Notes	Group 31 December 2016	Group 31 December 2015	Bank 31 December 2016	Bank 31 December 2015
ASSETS					
Cash and accounts with other banks	17	111.174	164.706	111.174	164.706
Obligatory reserve with the Central Bank	18	113.310	91.130	113.310	91.130
Placements with other banks	19	4.427	1.902	4.427	1.902
Loans and advances to customers	20	844.443	794.894	844.443	794.894
Investment in associates	21	2.372	1.653	705	705
Financial assets available-for-sale	22	65.095	57.661	65.095	57.661
Deferred tax assets	15	387	266	387	266
Other assets	23	4.667	10.933	4.667	10.933
Prepaid expenses		781	793	781	793
Tangible and intangible assets	24	34.971	35.562	34.971	35.562
Investment property	25	5.668	5.798	5.668	5.798
		1.187.295	**1.165.298**	**1.185.628**	**1.164.350**
EQUITY					
Share capital	31	86.473	86.473	86.473	86.473
Treasury shares		-	(21)	-	(21)
Share premium		3.000	3.000	3.000	3.000
Accumulated profit		36.765	29.306	35.862	28.761
Regulatory and other reserves		13.560	6.097	13.514	6.151
Revaluation reserves		7	(422)	7	(422)
Profit for the year		19.403	14.926	18.685	14.468
		159.208	**139.359**	**157.541**	**138.410**
LIABILITIES					
Due to other banks	26	172.824	202.870	172.824	202.870
Due to customers	27	792.339	771.478	792.339	771.478
Borrowings	28	48.539	37.018	48.539	37.018
Provisions	29	7.885	7.304	7.885	7.304
Income tax liabilities		-	237	-	237
Deferred tax liabilities	15	516	-	516	-
Other liabilities	30	5.984	7.032	5.984	7.033
		1.028.087	**1.025.939**	**1.028.087**	**1.025.940**
TOTAL LIABILITIES AND EQUITY		**1.187.295**	**1.165.298**	**1.185.628**	**1.164.350**

The accompanying notes form an integral part of these financial statements. Signed for the and in the name of Sparkasse Bank d.d. on 28 March 2017.

Sanel Kusturica
Director

Amir Softić
Executive director

Sparkasse Bank dd BiH

Statement on cash flow for the year ending 31 December 2016

(all amount are expressed in thousand KM, unless otherwise stated)

	Group 2016.	Group 2015.	Bank 2016.	Bank 2015.
Operating activities				
Profit before taxation	**21.466**	**16.397**	**20.748**	**15.939**
Adjustments:				
Depreciation and amortization	3.666	3.238	3.666	3.238
Impairment losses and provisions	8.224	10.570	8.224	10.570
Gain on sale of tangible and intangible assets, net	(813)	(971)	(813)	(971)
Profit participation in associates	(823)	(558)	-	-
Interest income from financial assets available-for-sale, recognized in statement of profit and loss and other comprehensive income	(1.912)	(1.203)	(1.912)	(1.203)
Dividend income recognized in statement of profit and loss and other comprehensive income	(14)	(14)	(119)	(114)
Cash flow before changes in operating assets and liabilities:	*29.794*	*27.459*	*29.794*	*27.459*
Increase in obligatory reserve with the CBBH, net	(22.180)	(27.968)	(22.180)	(27.968)
Increase in placements with other banks, before allowance, net	(2.576)	(2.096)	(2.576)	(2.096)
Increase in loans and advances to customers, before allowance, net	(55.782)	(46.461)	(55.782)	(46.461)
(Decrease) / increase in other assets, before allowance, net	6.230	(7.865)	6.230	(7.865)
Decrease in due to other banks, net	(30.046)	(25.913)	(30.046)	(25.913)
Increase in due to customers, net	20.861	132.172	20.861	132.172
Decrease in provisions, net	(1.474)	(110)	(1.474)	(110)
(Decrease) / increase in other liabilities, net	(1.286)	1.868	(1.286)	1.868
Cash generated in operating activities	**(56.459)**	**51.085**	**(56.459)**	**51.085**
Income tax paid	(1.668)	(1.234)	(1.668)	(1.234)
NET CASH (USED) / GENERATED IN OPERATING ACTIVITIES	**(58.127)**	**49.851**	**(58.127)**	**49.851**
Investing activities				
Sale of financial assets available-for-sale	(4.988)	(27.412)	(5.093)	(27.512)
Purchase of tangible and intangible assets	(2.936)	(7.453)	(2.936)	(7.453)
Proceeds from disposal of tangible and intangible assets	963	1.094	963	1.094
Dividend received	14	14	119	114
NET CASH USED IN INVESTING ACTIVITIES	**(6.947)**	**(33.757)**	**(6.947)**	**(33.757)**
Financial activities				
Repayment of borrowings	11.521	8.154	11.521	8.154
Acquired treasury shares	21	(21)	21	(21)
NET CASH GENERATED IN FINANCIAL ACTIVITIES	**11.542**	**8.133**	**11.542**	**8.133**
NET (DECRESE) / INCREASE IN CASH AND CASH EQUIVALENTS	**(53.532)**	**24.228**	**(53.532)**	**24.228**
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	**164.706**	**140.478**	**164.706**	**140.478**
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	**111.174**	**164.706**	**111.174**	**164.706**

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

Sparkasse Bank dd BiH

Statement on cash flow for the year ending 31 December 2016

(all amount are expressed in thousand KM, unless otherwise stated)

Group	Share capital	Treasury shares	Share premium	Accumulated income	Regulatory and other reserves	Revaluation reserves	Profit for the year	Total
31 December 2014	**86.473**	**-**	**3.000**	**23.998**	**790**	**44**	**10.615**	**124.920**
Dividend allocation for 2014	-	-	-	5.308	5.307	-	(10.615)	-
Repurchased own shares	-	(21)	-	-	-	-	-	(21)
Net profit for the year	-	-	-	-	-	-	14.926	14.926
Other comprehensive loss	-	-	-	-	-	(466)	-	(466)
Total comprehensive income	-	-	-	-	-	*(466)*	*14.926*	*14.460*
31 December 2015	**86.473**	**(21)**	**3.000**	**29.306**	**6.097**	**(422)**	**14.926**	**139.359**
Dividend allocation for 2015	-	-	-	7.463	7.463	-	(14.926)	-
Repurchased own shares	-	21	-	-	-	-	-	21
Loss on sale of own shares	-	-	-	-	(4)	-	-	(4)
Net profit for the year	-	-	-	-	-	-	19.403	19.403
Other comprehensive income	-	-	-	-	-	429	-	429
Total comprehensive income	-	-	-	-	-	*429*	*19.403*	*19.832*
31 December 2016	**86.473**	**-**	**3.000**	**36.769**	**13.556**	**7**	**19.403**	**159.208**

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

Bank	Share capital	Treasury shares	Share premium	Accumulated income	Regulatory and other reserves	Revaluation reserves	Profit for the year	Total
31 December 2014	**86.473**	**-**	**3.000**	**23.401**	**790**	**44**	**10.721**	**124.429**
Dividend allocation for 2014	-	-	-	5.360	5.361	-	(10.721)	-
Repurchased own shares	-	(21)	-	-	-	-	-	(21)
Net profit for the year	-	-	-	-	-	-	14.468	14.468
Other comprehensive loss	-	-	-	-	-	(466)	-	(466)
Total comprehensive income	-	-	-	-	-	*(466)*	*14.468*	*14.002*
31 December 2015	**86.473**	**(21)**	**3.000**	**28.761**	**6.151**	**(422)**	**14.468**	**138.410**
Dividend allocation for 2014	-	-	-	7.101	7.367	-	(14.468)	-
Repurchased own shares	-	21	-	-	-	-	-	21
Net profit for the year	-	-	-	-	(4)	-	-	(4)
Loss on sale of own shares	-	-	-	-	-	-	18.685	18.685
Other comprehensive loss	-	-	-	-	-	429	-	429
Total comprehensive income	-	-	-	-	-	*429*	*18.685*	*19.114*
31 December 2016	**86.473**	**-**	**3.000**	**35.862**	**13.514**	**7**	**18.685**	**157.541**

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

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

1. GENERAL

History and incorporation

SPARKASSE Bank dd BiH („Bank“) has been registered on July 9, 1999. with the relevant court in Sarajevo, under the number U/I-1291/99. On July 28, 1999 the Bank obtained, from Federal Banking Agency the permit to conduct its business, number 01-376/99. Banks headquarter is in Sarajevo, in the Zmaja od Bosne 7 street.

The majority shareholder of the Bank is Steiermarkische Bank und Sparkassen AG, Graz Austria its share amounting 97%. The ultimate owner is Erste Group Austria. The consolidated financial statements can be found on the following address: Am Belvedere 1, Vienna, Austria.

Associates consolidated in the Group’s financial statements can be presented as follows

Company	Business activity	Country	31 December 2016 % Share	31 December 2015 % Share
Sparkasse Leasing d.o.o. Sarajevo	Leasing	Bosnia and Herzegovina	49	49
S-Premium d.o.o. Sarajevo	Insurance agent	Bosnia and Herzegovina	49	49
Sparkasse nekretnine d.o.o. Sarajevo in liquidation	Real estate	Bosnia and Herzegovina	49	49

On 30 November 2016, the Company Sparkasse Nekretnine d.o.o. Sarajevo entered liquidation proceeding.

Principal activities of the Bank

The Bank offers banking services through a developed branch network in Bosnia and Herzegovina:

1. accepting all types of cash deposits and other monetary assets;
2. receiving and taking loans and finance lease;
3. giving all types of financial guarantees;
4. participation, purchase and sale of instruments on cash and capital market for own purposes and on behalf of other parties;
5. payment transactions and money transfer services;
6. purchase and sale of foreign currencies;
7. issuance and management of payment instruments (including credit cards, travel and bank checks);
8. storing and managing securities and other valuables;
9. financial management services;
10. purchase and sale of securities;
11. factoring and forfeiting services;
12. insurance intermediation services in accordance with relevant legislation;
13. other operations arising from points 1-12 of this paragraph and other operations as a joint stock company.

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

1. GENERAL (CONTINUED)

Managing bodies of the Bank

Supervisory board

Sava Dalbokov	President
Gerhard Maier	Member
Ismeta Čardaković	Member
Georg Bucher	Member
Renate Ferlitz	Member

Management board:

Sanel Kusturica	Director
Nedim Alihodžić	Executive director
Amir Softić	Executive director

Audit board:

Samir Omerhodžić	President
Aleksander Klemenčič	Member since 23 February 2016
Manfred Lackner	Member until 23 February 2016
Slaviša Kojić	Member
Sandra Petrcizek-Mahr	Member
Aida Sivro - Rahimić	Member

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and Interpretations effective in current period

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

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

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.1 Standards and Interpretations effective in current period (continued)

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

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

2.2 Standards and Interpretations in issue not yet adopted

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

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

The Bank has elected not to adopt these standards, amendments and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, amendments and interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements consist of consolidated and unconsolidated financial statements of the Bank, defined in International Financial Reporting Standard 10:”Consolidated financial statements” and International Accounting Standard 27: ”Separate financial statements”.

The consolidated and unconsolidated financial statements have been prepared in accordance with International Financial Reporting Standards (‘’IFRS’’), as published by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee of the IASB (IFRIC).

Basis of preparation

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

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

Fair value is the price that would be received to sell or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such basis, except leasing transactions that are within the scope of IAS 17 and measurement that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36. In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The financial statements are presented in Convertible Marks since that is the functional currency of the Group and the Bank. The Convertible Mark (KM) is officially tied to the Euro (EUR 1 = KM 1.95583).

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

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and the Bank's shares in associates.

Investments in associates

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting from the date that significant influences commences until the date the significant influences ceases.

Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Bank's interest in that associate which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate are not recognised.

Any excess of the cost of acquisition over the Bank's share of the net fair value of the identifiable assets and liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Bank's share of the net fair value of the identifiable assets and liabilities after reassessment is recognised immediately in profit or loss. Where the companies within the Group transact with the Bank, profits and losses are eliminated to the extent of the Bank's interest in the relevant associate.

Measurement and recognition of investments in unconsolidated financial statements

Investments in associates in unconsolidated financial statements are stated at cost less any impairment in the value of individual investments if needed.

Going concern

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

Interest income and expense

Interest income is accrued on a time basis, by reference to the principal outstanding and 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.

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

Interest charged on deposits is added to the principal where this is foreseen by the agreement. Interest income is suspended when it is considered that recovery of the income is unlikely. Suspended interest is recognized as income when collected.

Fee and commission income and expense

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

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

Taxation

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

Current income tax

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred income tax

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

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 realised. Deferred tax is charged or credited in the statement of profit or loss and other comprehensive income, 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. The Bank is subject to various indirect taxes which are included in administrative expenses.

Cash and cash equivalents

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

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

Financial instruments

Financial assets and financial liabilities are recognised when a group 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.

Financial assets

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through statement of profit or loss are recognised immediately in the statement of profit or loss and other comprehensive income.

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”, 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. The Bank currently does not have a financial asset at fair value through profit or loss.

Effective interest rate method

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

Income is recognized on an effective interest basis for financial instruments: “at fair value through profit or loss“(FVTPL), “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. Loans and receivables are measured at amortised cost using the effective interest rate method, except for short-term receivables when the recognition of interest would be immaterial.

Financial assets available-for-sale (“AFS”)

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 35. 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 and other comprehensive income for the period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

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

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

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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 through the use of an allowance account for all financial assets with the exception of trade receivables, where the carrying amount is reduced 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 statement of profit or loss and other comprehensive income.

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

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

Financial liabilities

Classification as debt or equity

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

Equity instruments

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

Financial guarantee contract liabilities

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

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

Financial liabilities

Financial liabilities are classified either as "financial liabilities at FVTPL" or "other financial liabilities". The Bank creates one category of financial liabilities for which accounting basis is represented as follows.

Other financial liabilities

Other financial liabilities, including due to banks, due to customers and subordinated debt, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tangible and intangible assets

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. Current 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 is charged from the moment the fixed asset is ready for its intended use. It is calculated in the basis of the estimated useful life of the asset, using the straight-line method as follows.

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

Estimated useful lives were as follows:

	2016.	2015.
Buildings	33 – 50 years	33 – 50 years
Computers	5 years	5 years
Vehicles	6 years	6 years
Furniture and other office equipment	5 – 10 years	5 – 10 years
Intangible assets	5 years	5 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of profit or loss and other comprehensive income 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 net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

As of 31 December 2016 tangible assets of the Bank were impaired in the amount of KM 77 thousand, while as of 31 December 2015 tangible assets of the Bank are not impaired.

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

Retirement severance payments

The Bank makes provision for retirement severance payments in the amount of either 6 average salaries of the employee disbursed by the Bank or 6 average salaries of the Federation of Bosnia and Herzegovina as in the most recent published report by the Federal Statistics Bureau, depending on what is more favourable to the employee.

The cost of retirement severance payments are recognized when earned.

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 statement of profit or loss and other comprehensive income for the period.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

31 December 2016	1 EUR = 1,95583 KM	1 USD = 1,855450KM
31 December 2015	1 EUR = 1,95583 KM	1 USD = 1,790070KM

Provisions

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

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

Equity and reserves

Share capital

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

Regulatory reserves for credit losses

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

Investments revaluation reserve

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

Retained earnings

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

Dividends

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

Earnings per share

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

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

During a portion of 2015 and 2016, the Bank held 146 own shares in its portfolio. This caused decrease of weighted average number of shares to 864,605 and 864,721 in 2016 and 2015 respectively.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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 assesses indicators for impairment of loans and receivables and their impact on the estimated future cash flows from the loans and receivables.

Regulatory provisions calculated in accordance with the regulations of the FBA
For the purposes of capital adequacy assessment and recognition of provisions for credit losses from profit in equity and reserve, in accordance with local regulations and the relevant regulations of the FBA, the Bank also calculates provisions in accordance with these regulations. Relevant investments are classified in the appropriate groups for FBA in accordance with these regulations depending on days of delay, the financial position of the debtor and collateral, and are reserved in accordance with the provisions laid down in percentages.

Litigations
Bank's Legal Department makes individual assessment of all court cases and makes provisions on a portfolio basis.
As stated in Note 29, the Bank has reserved KM 904 thousand (2015: KM 913 thousand), which Management estimates as sufficient. It is not practical to estimate the financial impact of changes in the assumptions on which management assesses the need for provisions.

Provisions for employee benefits
As described in Note 3, in the paragraph named Employee benefits, provision for employee benefits are calculated on the basis of an independent actuarial report on the implementation of IAS 19 – Employee benefits.

Fair value of financial instruments
As described in Note 35, the Management use their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial instruments, other than loans and receivables, are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates.

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

5.INTEREST AND SIMILAR INCOME

Group and Bank	**2016.**	**2015.**
Interest on loans to companies	24.528	25.975
Interest on loans to individuals	28.999	28.007
Interest on bond investment	1.912	1.203
Interest on placements with other banks	135	148
Interest on funds with the CBBH	-	-
	55.574	**55.333**

6. INTEREST AND SIMILAR EXPENSES

Group and Bank	**2016.**	**2015.**
Interest on deposits from individuals	6.675	7.784
Interest on deposits from companies	2.027	2.752
Interest on deposits and loans from banks	2.821	2.368
Other interest expenses	43	-
	11.566	**12.904**

7. FEE AND COMMISSION INCOME

Group and Bank	**2016.**	**2015.**
Fees from payment transactions	18.480	16.311
Fees from conversion transactions	1.632	1.728
Fees from off-balance sheet transactions	1.677	1.553
	21.789	**19.592**

8. FEE AND COMMISSION EXPENSE

Group and Bank	**2016.**	**2015.**
Fees and commissions from payment transactions	2.852	2.307
Other fees from banks	507	387
	3.359	**2.694**

9. FOREIGN EXCHANGE GAINS, NET

Group and Bank	**2016.**	**2015.**
Gain on foreign exchange transactions	135.291	192.335
Loss on foreign exchange transactions	(133.022)	(190.071)
	2.269	**2.264**

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

10. OTHER OPERATING INCOME

	Group 2016.	Group 2015.	Bank 2016.	Bank 2015.
Income on disposal of tangible and intangible assets	735	975	735	975
Rent income	582	629	582	629
Dividend income - financial assets available-for-sale	14	14	14	14
Dividend income - investment in associates (Note 22)	-	-	105	100
Other	711	474	711	474
	2.042	**2.092**	**2.147**	**2.192**

11. PERSONNEL EXPENSES

The average employee number of the Bank during the year ending 31 December 2016, and year ending 31 December 2015 was 498, 479 respectively.

Group and Bank	2016.	2015.
Net salaries	10.057	9.505
Taxes and contributions	5.974	5.665
Other	1.595	2.967
	17.626	**18.137**

12. OTHER ADMINISTRATIVE EXPENSES

Group and Bank	2016.	2015.
Services	4.425	4.256
Insurance	2.382	2.282
Rent	1.890	1.749
Telecommunication	1.132	1.067
Other taxes and contributions	1.213	1.360
Maintenance	1.764	1.720
Transport	1.041	1.157
Advertising and entertainment	882	971
Energy	756	813
Material	687	755
Agency fees	723	658
Supervisory board reimbursement	119	118
Other administrative expenses	1.012	676
	18.026	**17.582**

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

13. IMPAIRMENT LOSSES AND PROVISIONS

Group and Bank	2016.	2015.
Loans and advances to customers (Note 20)	6.233	9.753
Placements with other banks (Note 19)	51	31
Other assets (Note 23)	9	662
Cash and accounts with other banks (Note 17)	(120)	558
Financial assets available-for-sale (Note 22)	(4)	(21)
	6.169	**10.983**

14. OTHER PROVISIONS

Group and Bank	2016.	2015.
Employee benefits (Note 29)	1.289	441
Provision for legal proceedings (Note 29)	282	(154)
Provisions for off balance (Note 29)	(185)	(1.259)
Other provisions (Note 29)	669	559
	2.055	**(413)**

15. INCOME TAX

Bank's tax liability is calculated based on accounting income taking into the account non-deductible expenses. Income tax rate for the years ended 31 December 2016 and 31 December 2015 was 10%. In 2016, new Corporate Income Tax Act ("Official Gazette of FBiH", no. 15/16) came into effect, which introduced new provisions related to recognition of tax credit for tax paid in Republika Srpska and Brčko District, but it also introduced new tax reliefs for decrease of tax liability. Income tax paid in Republika Srpska and Brčko District is deductible in FBiH up to the amount that would be paid by applying the Corporate Income Tax of FBiH. New tax reliefs introduced are related to salary expense, paid to new employees, under conditions stipulated by the Corporate Income Tax Act. Total tax recognized in the statement of profit or loss and other comprehensive income may be presented as follows:

Group and Bank	2016.	2015.
Current income tax – FBiH	1.608	1.737
Current income tax – RS and BD	60	-
Deferred tax assets	(121)	(266)
Deferred tax liabilities	516	-
	2.063	**1.471**

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

15. INCOME TAX (CONTINUED)

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

	Group 2016.	*Group* 2015.	*Bank* 2016.	*Bank* 2015.
Profit before income tax	**21.466**	**16.397**	**20.748**	**15.939**
Income tax expense at prescribed rate of 10%	**2.147**	**1.640**	**2.075**	**1.594**
Non-taxable income	(648)	(63)	(648)	(63)
Effects of non-deductible expenses	268	206	268	206
Other (tax reliefs)	(87)	-	(87)	-
Effects of dividends and profit participation for which the taxes have been paid	(72)	(46)	-	-
Current income tax	**1.608**	**1.737**	**1.608**	**1.737**
Effective income tax rate	**7,49%**	**10,59%**	**7,75%**	**10,90%**

Movement in deferred tax assets can be presented as follows:

Group and Bank	2016.	2015.
Balance at the beginning of the year	266	-
Decrease (increase of tax liability)	(120)	-
Increase (decrease of tax liability)	241	266
Balance at the end of the year	**387**	**266**

Movement in deferred tax liabilities can be presented as follows:

Group and Bank	2016.	2015.
Balance at the beginning of the year	-	-
Decrease (increase of tax liability)	516	-
Balance at the end of the year	**516**	**-**

16. EARNINGS PER SHARE

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

	Group 2016.	*Group* 2015.	*Bank* 2016.	*Bank* 2015.
Profit attributable to ordinary shareholders, net	19.403	14.926	18.685	14.468
Weighted average number of regular shares for the year	864.605	864.721	864.605	864.721
Basic earnings per share (KM)	**22,44**	**17,26**	**21,61**	**16,73**

During a portion of 2015 and 2016, the Bank held 146 own shares in its portfolio. This caused decrease of weighted average number of shares to 864,605 and 864,721 in 2016 and 2015 respectively.

17. CASH AND ACCOUNTS WITH OTHER BANKS

Group and Bank	31 December 2016	31 December 2015
Cash at hand	52.371	46.182
Correspondent accounts with other banks in foreign currencies	47.560	89.318
Account with the CBBH in domestic currency	11.784	29.867
Total before provisions	**111.715**	**165.367**
Less: Impairment losses	(541)	(661)
	111.174	**164.706**

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

Provisions are in regard to the cheques and cash on correspondent accounts with other banks in foreign currencies. The movements in the allowance for impairment losses are summarized as follows:

Group and Bank	2016.	2015.
Balance at 1 January	**661**	**103**
Movements in provisions, net (Note 13)	(120)	558
Balance at 31 December	**541**	**661**

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

Group and Bank	31 December 2016	31 December 2015
Specific reserve by Law on banks, article 42a	16.375	20.382
Obligatory reserve with the CBBH	96.935	70.748
	113.310	**91.130**

In accordance with Law on banks (article 42 a), the Bank is obliged to hold 50% of daily balance of received payments from public funds, deposits and transactions for budgetary and off budgetary funds in cash as specific reserve in the CBBH.
Interest rate on funds kept up to minimum obligatory reserve amounted to 0%. Cash held at the obligatory reserve account with the CBBH is not available for daily operations without specific approval from the CBBH and FBA.
Since 1 July 2016, the new Decision on determining and maintaining obligatory reserves and determining CBBiH fee on the amount of reserves ("Official Gazette of BiH", no. 30/16) is in effect. The Decision determines the unified obligatory reserve rate of 10%, which the CBBiH applies to the basis for calculation of obligatory reserve. On the amount of assets exceeding the obligatory reserve, CBBiH charges fee at the rate equal to 50% of the rate applied by European Central Bank (ECB) on commercial banks' deposits.

19. PLACEMENTS WITH OTHER BANKS

Group and Bank	31 December 2016	31 December 2015
Placements with other banks		
Placements on money market	4.517	1.941
	4.517	*1.941*
Total before provisions	**4.517**	**1.941**
Less: Impairment losses	(90)	(39)
	4.427	**1.902**

At 31 December 2016, the placements with other banks in EUR represent interest bearing assets.

The movements in the allowance for impairment losses are summarized as follows:

Group and Bank	2016.	2015.
Balance at 1 January	**39**	**8**
Movements (Note 13)	51	31
Balance at 31 December	**90**	**39**
Expected to be recovered:		
- no more than 12 months after the reporting period	4.517	1.941
- more than 12 months after the reporting period	-	-
Less: Impairment	(90)	(39)
	4.427	**1.902**

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

20. LOANS AND ADVANCES TO CUSTOMERS, NET

Group and Bank	31 December 2016	31 December 2015
Long-term loans		
Retail	394.870	360.859
Corporate	299.159	298.993
	694.029	*659.852*
Short-term loans		
Retail	24.380	23.264
Corporate	215.409	197.165
	239.789	*220.429*
Total loans before impairment losses	***933.818***	***880.281***
Less: Impairment losses based on individual assessment	(50.923)	(47.421)
Less: Impairment losses based on group assessment	(38.452)	(37.966)
	844.443	**794.894**

The movements in the allowance for impairment losses are summarized as follows:

Group and Bank	2016.	2015.
Balance at 1 January	**85.387**	**76.230**
Movements in provisions, net (Note 13)	6.233	9.753
Reclassification of off-balance receivables due to re-recognition	-	250
Transfer to other assets (Note 23)	(74)	(306)
Write-offs	(1.870)	(18)
Unwinding	(301)	(522)
Balance at 31 December	**89.375**	**85.387**

Loans and allowances presented in table above include loan principle in the amount of KM 5,304 thousand (2015: KM 5,089 thousand) and decreased for prepaid loan fees amounting KM 4,267 thousands (2015: KM 3,700 thousand).

Industry gross loan analysis before impairment losses can be presented as follows:

Group and Bank	31 December 2016	31 December 2015
	4.712	3.077
Financial services	35.203	37.819
Construction	7.140	4.672
Hotels and restaurants	267	317
Public administration and defence, obligatory social insurance	27.460	22.073
Real and rent estates and business activities	187	285
Education	6.060	3.315
Energy, gas and water supply	285.902	276.290
Other	140.897	139.937
Manufacture	3.050	4.243
Mining	3.690	4.130
Healthcare and social work	419.250	384.123
Population	**933.818**	**880.281**

The amounts presented in table above include loan principle increased by interest receivables and decreased for prepaid loan fees as of 31 December 2016, and 31 December 2015. Total amount of non-performing loans was KM 29,686 thousand and KM 85,813 thousand as at 31 December 2016 and 2015, respectively.

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

Weighted average interest rate on loans and advances to customers as at 31 December 2016 can be presented as follows:

Group and Bank	2016.	2015.
Corporate	5,08%	5,56%
Individuals	7,23%	7,42%

21. INVESTMENT IN ASSOCIATES

The Bank invested in joint companies in accordance with share method, as follows:

Name of the company	*Group* 31 December 2016	*Group* 31 December 2015	*Bank* 31 December 2016	*Bank* 31 December 2015
Sparkasse Leasing d.o.o. Sarajevo	1.831	1.442	607	607
S-Premium d.o.o. Sarajevo	500	151	49	49
Sparkasse Nekretnine d.o.o. Sarajevo in liquidation	41	60	49	49
	2.372	**1.653**	**705**	**705**

For all joint companies the reporting date is 31 December. The summary of financial information on joint companies is presented below:

	31 December 2016	31 December 2015
Total assets	58.196	53.191
Total liabilities	(53.354)	(49.815)
Net assets	4.842	3.376
Participation in net assets of associates	**2.372**	**1.653**

The change of joint company investment can be shown as follows:

	Group	*Group*	*Bank*	*Bank*
	Share method		*Cost method*	
	2016.	2015.	2016.	2015.
Balance at 1 January	**1.653**	**1.195**	**705**	**705**
Dividends paid (Note 10)	(105)	(100)	-	-
Share of associates' joint company net result	824	558	-	-
Balance at 31 December	**2.372**	**1.653**	**705**	**705**

22. FINANCIAL ASSETS AVAILABLE-FOR-SALE

Group and Bank	31 December 2016	31 December 2015
Total equity instruments:	**179**	**179**
Goverment of Federation Bosnia and Herzegovina and Republic of Srpska – bonds	44.632	45.002
Government of Republic of Austria – bonds	11.591	-
Government of Republic of Croatia – bonds	8.894	8.912
Goverment of Federation Bosnia and Herzegovina and Republic of Srpska – treasury notes	-	3.773
Total equity securities	**65.117**	**57.687**
Less: Impairment losses	(201)	(205)
	65.095	**57.661**

Interest rate on treasury notes amounted from 0.61% to 3.2% during 2016 (2015: 0.61% to 3.2% p.a), and on bonds interest rate amounted from 2.5% to 6.1% during 2016 (2015: 2.5% to 6.1% p.a.).

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

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

The movements in the allowance for impairment losses are summarized as follows:

Group and Bank	2016.	2015.
Balance at 1 January	**205**	**226**
Movements in provisions, net (Note 13)	(4)	(21)
Balance at 31 December	**201**	**205**
Expected to be recovered:		
- no more than 12 months after the reporting period	86	3.793
- more than 12 months after the reporting period	65.210	54.073
Less: Impairment	(201)	(205)
	65.095	**57.661**

23. OTHER ASSETS

Group and Bank	31. decembar 2016.	31. decembar 2015.
Acquired tangible assets	2.886	4.030
Authorized exchange office receivables	1.536	1.591
Domestic transactions receivables	1.394	885
Fees and commission receivables	1.295	1.184
Inventories	263	224
Western union receivables	113	56
Receivables from foreign banks - currency in transit	92	7.291
VAT receivables	2	2
Other assets	2.228	1.884
Total other assets before impairment losses	***9.809***	***17.147***
Less: Impairment losses	(5.142)	(6.214)
	4.667	**10.933**

The movements in the allowance for impairment losses are summarized as follows:

Group and Bank	2016.	2015.
Balance at 1 January	**6.214**	**6.548**
Provisions movements, net (Note 13)	9	662
Transfer of loans and allowances receivables (Note 20)	74	306
Acquired tangible assets disposal	(1.123)	(978)
Write-offs	(32)	(324)
Balance at 31 December	**5.142**	**6.214**

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

24. TANGIBLE AND INTANGIBLE ASSETS

Group and Bank	Land and buildings	Computers	Vehicles	Furniture and equip-ment	Patents, licences and software	Leasehold improve-ments	Investment in progress	Total
COST								
As at 31 December 2014	**25.235**	**3.780**	**647**	**10.030**	**6.910**	**1.310**	**1.004**	**48.916**
Additions	-	-	-	-	-	-	7.453	7.453
Transfer (from) / to	2.837	643	900	1.291	1.642	153	(7.466)	-
Write-offs	-	(16)	(226)	(25)	-	(2)	-	(269)
As at 31 December 2015	**28.072**	**4.407**	**1.321**	**11.296**	**8.552**	**1.461**	**991**	**56.100**
Additions	-	-	-	-	-	-	2.936	2.936
Transfer (from) / to	42	166	337	657	1.524	378	(3.104)	-
Reclassification	-	-	-	-	-	-	160	160
Write-offs	-	(505)	(60)	(303)	(6)	(684)	(143)	(1.701)
As at 31 December 2016	**28.114**	**4.068**	**1.598**	**11.650**	**10.070**	**1.155**	**840**	**57.495**
ACCUMULATED DEPRECIATION								
As at 31 December 2014	**3.025**	**2.191**	**278**	**6.054**	**5.067**	**959**	**-**	**17.574**
Depreciation	496	435	223	1.069	744	142	-	3.109
Write offs	-	(14)	(106)	(24)	-	(1)	-	(145)
As at 31 December 2015	**3.521**	**2.612**	**395**	**7.099**	**5.811**	**1.100**	**-**	**20.538**
Depreciation	551	496	244	1.075	993	178	-	3.537
Write offs	-	(505)	(54)	(303)	(5)	(684)	-	(1.551)
As at 31 December 2016	**4.072**	**2.603**	**585**	**7.871**	**6.799**	**594**	**-**	**22.524**
NET BOOK VALUE								
As at 31 December 2016	**24.042**	**1.465**	**1.013**	**3.779**	**3.271**	**561**	**840**	**34.971**
As at 31 December 2015	**24.551**	**1.795**	**926**	**4.197**	**2.741**	**361**	**991**	**35.562**

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

25. INVESTMENT PROPERTY

Group and Bank	Buildings
COST	
As at 31 December 2014	**6.440**
Additions	-
As at 31 December 2015	**6.440**
Additions	-
As at 31 December 2016	**6.440**
ACCUMULATED DEPRECIATION	
As at 31 December 2014	**514**
Depreciation	129
As at 31 December 2015	**643**
Depreciation	129
As at 31 December 2016	**772**
NET BOOK VALUE	
As at 31 December 2016	**5.668**
As at 31 December 2015	**5.798**

Investment property relates to business premises (floors) in the Central office building in Sarajevo rented and not used by the Bank. Investment property net book value amounting KM 5,668 thousand (2015: KM 5,798 thousand) is in use since 2010. On the basis of an investment property, in 2015 the Bank achieved a total income from rents in the amount of KM 582 thousand – Note 10 (2015 – KM 629 thousand), while the direct costs for the year amounted to KM 54 thousand (2015 – KM 47 thousand). According to Management Board opinion fair value of investment properties as at 31 December 2016 and 2015 does not significantly differ from the carrying value of the building during 2016 and 2015.

26. DUE TO OTHER BANKS

Group and Bank	31 December 2016	31 December 201 6 5
Demand deposits		
In KM	1.164	6.756
In foreign currencies	359	599
	1.523	***7.355***
Term deposits		
In KM	10.662	11.500
In foreign currencies	160.639	184.015
	171.301	***195.515***
	172.824	**202.870**

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

27. DUE TO CUSTOMERS

Group and Bank	31 December 2016	31 December 2015
Demand deposits:		
Individuals:		
In KM	144.499	109.081
In foreign currencies	58.554	47.736
	203.053	*156.817*
Corporate:		
In KM	118.023	153.771
In foreign currencies	25.285	26.380
	143.308	*180.151*
Other government and non-government organisations:		
In KM	16.643	27.538
In foreign currencies	4.859	6.300
	21.502	*33.838*
Total demand deposits	**367.863**	**370.806**
Term deposits:		
Individuals:		
In KM	141.638	136.395
In foreign currencies	151.431	158.358
	293.069	*294.753*
Corporate:		
In KM	93.937	81.394
In foreign currencies	14.298	3.124
	108.235	*84.518*
Other government and non-government organisations:		
In KM	23.139	21.379
In foreign currencies	33	22
	23.172	*21.401*
Total term deposits	**424.476**	**400.672**
	792.339	**771.478**

Demand deposits interest rates ranged from 0.00% to 0.02% annually, i.e. from 0.00% to 0.14% annually, and for term deposits from 0.00% to 1.91% annually, and from 0.14% to 2.37%, for the years ended 31 December 2016 and 2015, respectively.

28. BORROWINGS

Group and Bank	31 December 2016	31 December 2015
European Investment Bank (EIB) – average weighted interest rate per drawn instalment is 1.79% with the following maturities: 15 October 2018, 15 August 2020 and 15 May 2023	44.111	30.027
European Bank for Reconstruction and Development (EBRD) – weighted average interest rate 1.60% p.a., maturity on 8 July 2018	3.916	6.336
Foundation for sustainable development (OdRaz) – weighted average interest rate 1.13% and the following maturities: 1 June 2017, 1 July 2022 and 1 November 2023	512	655
	48.539	**37.018**

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

29. PROVISIONS

Group and Bank	31 December 2016	31 December 2015
Provisions for off balance items	2.597	2.782
Provisions for employee benefits	2.289	2.183
Provisions for legal proceedings	904	913
Other provisions	2.095	1.426
	7.885	**7.304**

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, letters of credit and undrawn loan commitments.

Group and Bank	31. decembar 2016.	31. decembar 2015.
Granted but undrawn loans	120.883	98.513
Performance guarantees	42.328	38.969
Payment guarantees	31.348	32.404
Acreditives	2.774	2.880
	197.333	**172.766**

As of 31 December 2016, the provisions for employee benefits represent unused vacation days and severance and retirement bonuses, and were determined using the projected credit unit. In order to make actuarial estimates, following assumptions were used:

- discount rate - 5%;
- expected wage growth rate of 1% p.a. (until retirement) (2015: expected wage growth rate 1.0%);
- statistical information on the average salary in FBiH, RS and the Bank;
- demographic assumptions (mortality, fluctuation)

Movements in provisions were as follows:

Group and Bank	Off balance	Employee benefits	Legal proceedings	Other provisions	Total
Balance at 1 January 2015	4.041	1.742	1.177	**867**	**7.827**
Additional provisions recognized, net (Note 14)	-	1.406	-	559	1.965
Release due to re-measurement (Note 14)	(1.259)	(965)	(154)	-	(2.378)
Release due to payments	-	-	(110)	-	(110)
Balance at 31 December 2015	2.782	2.183	913	**1.426**	**7.304**
Additional provisions recognized, net (Note 14)	-	1.289	282	669	2.240
Release due to re-measurement (Note 14)	(185)	-	-	-	(185)
Release due to payments	-	(1.183)	(291)	**-**	(1.474)
Balance at 31 December 2016	2.597	2.289	904	**2.095**	**7.885**

30. OTHER LIABILITIES

Group and Bank	31 December 2016	31 December 2015
Liabilities towards suppliers	1.966	1.768
Liabilities towards employees	1.468	1.331
Liabilities for unallocated payments	573	1.908
Liabilities for taxes	64	35
Other liabilities	1.913	1.990
	5.984	**7.032**

31. SHARE CAPITAL

Shareholding structure as at 31 December 2016 and 2015 was as follows.

	31 December 2016			31 December 2015		
Group and Bank	No. of shares	Amount in KM '000	%	No. of shares	Amount in KM '000	%
Steiermarkische Bank und Sparkassen AG, Graz, Austria	839.160	83.916	97,0	839.006	83.901	97,0
Other	25.573	2.557	3,0	25.727	2.572	3,0
Total paid capital	**864.733**	**86.473**	**100,0**	**864.733**	**86.473**	**100,0**

Share capital is made up of 864,733 ordinary shares at nominal value of KM 100. Issuance premium (agio) represents accumulated positive difference between nominal value and amount received for issued shares.

32. RELATED-PARTY TRANSACTIONS

In the normal course of business a number of banking transactions are entered into with related parties. These transactions were carried out on commercial terms and conditions and at market rates.

Transactions with the Owner

	31 December 2016		31 December 2015	
Group and Bank	Receivables	Liabilities	Receivables	Liabilities
Steiermarkische Bank und Sparkassen AG. Graz, Austria	15.262	194.820	7.261	180.196
	15.262	**194.820**	**7.261**	**180.196**

	2016.		2015.	
Group and Bank	Income	Expense	Income	Expense
Steiermarkische Bank und Sparkassen AG. Graz, Austria	6	2.734	11	1.843
	6	**2.734**	**11**	**1.843**

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

32. RELATED-PARTY TRANSACTIONS (CONTINUED)

Transactions with other related parties

	31 December 2016		31 December 2015	
Group and Bank	**Receivables**	**Liabilities**	**Receivables**	**Liabilities**
Erste and Steiermarkische bank d.d Zagreb, Croatia	1.907	8.153	11.384	-
Sparkasse Bank a.d. Skoplje, Macedonia	9.781	-	9.781	-
Oesterreichischen Sparkassen AG Vienna, Austria	6.435	2.059	7.460	4.095
S Leasing d.o.o. Sarajevo, BiH	3	1.290	10	1.067
S Premium d.o.o. Sarajevo, BiH	-	1.071	-	926
Sparkasse Nekretnine d.o.o. Sarajevo, BiH	-	56	-	91
	18.126	**12.629**	**28.635**	**6.179**

	2016.		2015.	
Group and Bank	**Income**	**Expenses**	**Income**	**Expenses**
S Leasing d.o.o. Sarajevo, BiH	98	29	110	22
Erste and Steiermarkische bank d.d. Zagreb, Croatia	41	-	65	-
Erste Bank der Oesterreichischen Sparkassen AG Vienna, Austria	64	141	59	7
Sparkasse Nekretnine d.o.o. Sarajevo, BiH	8	4	6	4
S Premium d.o.o. Sarajevo, BiH	9	4	6	4
Sparkasse Bank a.d. Skoplje, Macedonia	2	60	7	-
Erste Group Card Processor d.o.o. (vm.MBU)	-	942	-	856
S IT Solutions AT Spardat GmBH Vienna, Austria	-	565	-	453
Erste Group IT International GmbH	-	38	-	-
S IT Solutions HR d.o.o. Bjelovar, Croatia	-	59	-	55
S IT Solutions CZ s.r.o. Prague, Czech Republic	-	9	-	9
	222	**1.851**	**253**	**1.410**

Management remunerations

The remunerations of Management Board and other members of key management were as follows:

Group and the Bank	**2016.**	**2015.**
Gross salaries	816	816
Other benefits	32	101
Fees to Supervisory Board members	30	29
	878	**946**

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

33. MANAGED FUNDS

The funds managed by the Bank, where the Bank acts as a commissioner on behalf of individuals, trusts and other institutions, are not Banks funds, and therefore are not included in its balance sheet.

It the table below are shown the funds managed by the Bank in and for the name of its clients:

Group and Bank	31 December 2016	31 December 2015
Loans		
Corporate	17.624	18.574
Individuals	2.973	3.205
	20.597	**21.779**
Financing sources		
Employment agency of Federation of Bosnia and Herzegovina	16.885	17.256
Intesa Sanpaolo Banka	1.445	2.112
Ministry of war military invalids of Zenica–Doboj Canton	776	876
Bosnian-Podrinje Canton Government	799	799
International guarantee agency – IGA	326	326
Zenica- Doboj Canton Government	109	150
Employment agency of Zenica-doboj Canton	138	140
Lutheran World Federation	73	73
Housing fund of Unsko-Sanski Canton	25	25
Employment agency of Bosnian-Podrinje Canton	21	21
War military invalids organisation Bihać	-	1
	20.597	**21.779**
Liability, net	-	-

The Bank does not bear any risk in regard to this placement, and for its services charges a fee. Liabilities from commissioner business are invested in loans to companies and individuals on behalf of third parties.

34. FINANCIAL INSTRUMENTS

a) Capital risk management

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

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

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

Bank	31 December 2016	31 December 2015
Debt	1.013.702	1.011.366
Equity	157.541	138.411
Debt to capital ratio	**6,43**	**7,31**

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

34. FINANCIAL INSTRUMENTS (CONTINUED)

a) Capital risk management (continued)

Debt is defined as liabilities to banks and customers presented in detail in Notes 26 and 27, and borrowings presented in detail in Note 28, and capital includes total equity of the Bank.

Capital adequacy and the use of net capital are monitored 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 net (regulatory) capital and the lowest level of net capital (regulatory capital) of KM 15 million, and

b) bmaintain a ratio of net (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 and capital hedge for 2014. The Bank's net capital is divided into two tiers:

- Tier 1 capital or Core Capital: share capital, share premium and retained earnings indefinitely allocated by the Bank's shareholders for coverage future net losses (if any), reduced by intangible assets and deferred tax assets; (2013: share capital, share premium, investments revaluation reserve and retained earnings, reduced by intangible assets); and
- Tier 2 capital or Supplementary Capital: general regulatory reserves in accordance with FBA regulations (calculated for regulatory reporting only) and qualified subordinated debt, increased by positive revaluation reserves (2013: general regulatory reserves in accordance with FBA regulations, qualified subordinated debt and audited net profit for the current year).

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

As of 31 December 2016 and 2015 the Bank complied with all of the externally imposed capital requirements to which it was subject. As of 31 December 2016 the adequacy of the Bank's capital amounts to 12.9% (2015: 13,0%).

	31. decembar 2016.	31. decembar 2015.
Tier 1 capital		
Ordinary shares	86.473	86.473
Share premium	3.000	3.000
Statutory reserves	35.862	28.762
Retained earnings	12.723	5.360
Own (treasury) shares	-	(21)
Deferred tax assets	(421)	(314)
Negative revaluation reserve	(311)	(433)
Less: Intangible assets	(3.528)	(3.314)
Total tier 1 capital	**133.798**	**119.513**
Tier 2 capital		
General provision - FBA regulations	12.833	15.731
Positive Revaluation reserves	319	11
Total tier 2 capital	**13.152**	**15.742**
Impairment of capital		
Shortfall in regulatory reserves	(14.416)	(9.125)
Net capital	**132.534**	**126.130**
Risk Weighted Assets (unaudited)	954.307	900.432
Weighted Operational Risk (unaudited)	72.363	67.606
Total weighted risk	**1.026.670**	**968.038**
Capital adequacy (%)	**12,9**	**13,0**

***** In accordance the Decision of FBA on minimum standards for capital management and capital hedge ("Official Gazette of the Federation of Bosnia and Herzegovina", number 46/14)

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

34. 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

	Group 31 December 2016	Group 31 December 2015	Bank 31 December 2016	Bank 31 December 2015
Financial assets				
Loans and receivables:				
Cash and cash equivalents (including Obligatory reserve with the CBBH)	*224.484*	*255.836*	*224.484*	*255.836*
Placements with other banks	*4.427*	*1.902*	*4.427*	*1.902*
Loans and advances to customers, net	*844.443*	*794.894*	*844.443*	*794.894*
Other financial assets	*3.996*	*10.238*	*3.996*	*10.238*
Financial assets available-for-sale	67.467	59.314	65.800	58.366
	1.144.817	**1.122.184**	**1.143.150**	**1.121.236**
Financial liabilities				
At amortised cost				
Due to other banks	*172.824*	*202.870*	*172.824*	*202.870*
Due to customers	*792.339*	*771.478*	*792.339*	*771.478*
Due for loans taken	*48.539*	*37.018*	*48.539*	*37.018*
Other financial liabilities	*6.500*	*7.269*	*6.500*	*7.269*
	1.020.202	**1.018.635**	**1.020.202**	**1.018.635**

d) Financial risk management objectives

The Bank's Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Bank through internal risk reports, which analyze 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 thousand KM, unless otherwise stated)

34. FINANCIAL INSTRUMENTS (CONTINUED)

f) Foreign currency risk management

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

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

Banka	KM	EUR	USD	Other currencies	Total
ASSETS					
Cash and cash equivalents	64.349	42.890	11.076	9234	127.549
Obligatory reserve with the CBBH	96.935	-	-	-	96.935
Placements with other banks	-	3.848	-	579	4.427
Loans and advances to customers, net	465.959	378.484	-	-	844.443
Financial assets available-for-sale	23.300	42.500	-	-	65.800
Other financial assets	3.625	338	12	21	3.996
	654.168	**468.060**	**11.088**	**9.834**	**1.143.150**
LIABILITIES					
Due to other banks	11.825	158.789	-	2.210	172.824
Due to clients	506.330	267.501	10.619	7.889	792.339
Borrowings	26	48.513	-	-	48.539
Other financial liabilities	3.738	2.246	514	2	6.500
	521.919	**477.049**	**11.133**	**10.101**	**1.020.202**
Discrepancy as at 31 December 2015	**132.249**	**(8.989)**	**(45)**	**(267)**	**122.948**
Total monetary assets	**564.592**	**531.674**	**13.122**	**11.848**	**1.121.236**
Total monetary liabilities	**488.994**	**504.575**	**13.257**	**11.809**	**1.018.635**
Discrepancy as at 31 December 2014	**75.598**	**27.099**	**(135)**	**39**	**102.601**

Foreign currency sensitivity analysis

The Bank is mainly exposed to EUR, USD and other currencies. 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 other currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items in currencies different from lender and borrower currencies. A positive number below indicates an increase in profit or other capital where KM strengthens 10% against other relevant currency.. For a 10% weakening of KM against other relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	USD Effect	
Bank	31 December 2016	31 December 2015
Profit / (loss)	(6)	(13)

34. FINANCIAL INSTRUMENTS (CONTINUED)

g) Interest rate risk management

The Bank is exposed to interest rate risk as the Bank is placing and borrowing funds at fixed interest rates. The Bank's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note (see point i).

Interest rate sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Bank's net profit for the year ending 31 December 2016 would increase / decrease by KM thousand 3,518 (2015: by KM 2,077 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 Board, provided by reports from Risk management department.

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 the value of any collateral obtained.

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

34. FINANCIAL INSTRUMENTS (CONTINUED)

h) Credit risk management (continued)

Financial assets

Bank	Total gross carrying amount	Unimpaired assets	Impaired assets	Individually impaired assets	Group impaired assets	Total net carrying amount
As at 31 December 2016						
Cash and accounts in banks	111.715	111.715	-	-	(541)	111.174
Obligatory reserve with the CBBH	113.310	113.310	-	-	-	113.310
Placements with other banks	4.517	4.517	-	-	(90)	4.427
Loans to customers	933.818	844.132	89.686	(49.644)	(39.731)	844.443
Financial assets available-for-sale	66.001	66.001	-	-	(201)	65.800
Other financial assets	6.584	4.170	2.414	-	(2.588)	3.996
	1.235.945	**1.143.845**	**92.100**	**(49.644)**	**(43.151)**	**1.143.150**
As at 31 December 2015						
Cash and accounts in banks	165.367	165.367	-	-	(661)	164.706
Obligatory reserve with the CBBH	91.130	91.130	-	-	-	91.130
Placements with other banks	1.941	1.941	-	-	(39)	1.902
Loans to customers	880.281	794.468	85.813	(47.421)	(37.966)	794.894
Financial assets available-for-sale	58.571	58.571	-	-	(205)	58.366
Other financial assets	12.834	10.465	2.369	-	(2.596)	10.238
	1.210.124	**1.121.942**	**88.182**	**(47.421)**	**(41.467)**	**1.121.236**

Credit exposure and collateral

Bank	**Credit risk exposure**		**Value of collateral**
	Net exposure	**Unwithdrawn loans / Guarantees**	
As at 31 December 2016			
Cash and cash equivalents	111.174	-	-
Obligatory reserve with the CBBH	113.310	-	-
Placements with other banks	4.427	-	-
Loans to customers	844.443	196.191	381.065
Financial assets available-for-sale	65.800	-	-
Other financial assets	3.996	-	-
	1.143.150	**196.191**	**381.065**
As at 31 December 2015			
Cash and cash equivalents	164.706	-	-
Obligatory reserve with the CBBH	91.130	-	-
Placements with other banks	1.902	-	-
Loans to customers	794.894	172.503	378.623
Financial assets available-for-sale	58.366	-	-
Other financial assets	10.238	-	-
	1.121.236	**172.503**	**378.623**

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

34. FINANCIAL INSTRUMENTS (CONTINUED)

h) Credit risk management (continued)

Credit exposure and collateral (continued)

Value of the collateral

Bank	31 December 2016	31 December 2015
Real estate	347.232	341.500
Movable property	7.814	6.332
Deposits	17.310	21.272
Other	8.709	9.519
	381.065	**378.623**

Arrears

Bank	Total gross loan portfolio	Not due	Up to 30 days	31 – 90 days	91 – 180 days	181 – 270 days	over 270 days
31 December 2016							
Corporate	514.567	429.977	26.701	4.972	1.390	2.940	48.587
Retail	419.251	381.546	8.184	3.582	3.031	2.520	20.388
Subtotal	**933.818**	**811.523**	**34.885**	**8.554**	**4.421**	**5.460**	**68.975**
Impairment losses	(89.375)	(14.989)	(1.541)	(2.059)	(2.479)	(4.395)	(63.912)
Total	**844.443**	**796.534**	**33.344**	**6.495**	**1.942**	**1.065**	**5.063**
31 December 2015							
Corporate	496.158	420.526	17.280	6.951	1.437	931	49.033
Retail	384.123	341.894	17.810	3.886	3.107	1.893	15.533
Subtotal	**880.281**	**762.420**	**35.090**	**10.837**	**4.544**	**2.824**	**64.566**
Impairment losses	(85.387)	(16.310)	(3.014)	(2.515)	(2.983)	(2.348)	(58.217)
Total	**794.894**	**746.110**	**32.076**	**8.322**	**1.561**	**476**	**6.349**

i) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board, which has created an adequate framework for the management of liquidity risk to be used for the management of long-, mid- and short-term needs for the management of the Bank's liquidity. The Bank manages this type of risk by maintaining adequate reserves and other sources of financing, by constantly monitoring the projected and actual cash flows and by comparing maturity profiles of financial assets and liabilities.

The following table details the rest of Bank's contractual maturities for financial assets. The table is prepared based on nondiscounted financial assets cash flows, including interest for that assets and interest for that asset that will be earned, except for the assets that it is expected for the cash flow to appear in the future period.

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

34. FINANCIAL INSTRUMENTS (CONTINUED)

i) Liquidity risk management (continued)

Liquidity and interest risk tables

Maturity for financial assets

Bank	Weighted average effective interest rate	Less than 1 month	2 to 3 months	4 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2016							
Non-interest bearing	-	100.136	33	1.157	11	-	101.337
Variable interest rate instruments	3,62%	81.178	8.670	37.459	130.413	109.041	366.761
Fixed interest rate instruments	6,60%	93.988	65.810	241.176	305.114	224.204	930.292
		275.302	**74.513**	**279.792**	**435.538**	**333.245**	**1.398.390**
31 December 2015							
Non-interest bearing	-	148.449	66	1.257	16	-	149.788
Variable interest rate instruments	3,27%	138.910	11.212	46.169	145.730	75.548	417.569
Fixed interest rate instruments	7,16%	123.988	58.357	229.703	278.474	219.632	910.154
		411.347	**69.635**	**277.129**	**424.220**	**295.180**	**1.477.511**

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

Maturity for financial liabilities

Bank	Weighted average effective interest rate	Less than 1 month	2 to 3 months	4 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2016							
Non-interest bearing	-	313.698	135	2.129	4.377	4.636	324.975
Variable interest rate instruments	1,53%	-	-	26	115.461	10.123	125.610
Fixed interest rate instruments	1,86%	74.853	27.896	172.137	268.335	52.207	595.428
		388.551	**28.031**	**174.292**	**388.173**	**66.966**	**1.046.013**
31 December 2015							
Non-interest bearing	-	291.308	922	4.263	3.457	3.842	303.792
Variable interest rate instruments	0,74%	3	17	15.711	128.695	59.168	203.594
Fixed interest rate instruments	2,14%	121.268	39.268	143.862	197.510	32.891	534.799
		412.579	**40.207**	**163.836**	**329.662**	**95.901**	**1.042.185**

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

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

35. FAIR VALUE MEASUREMENT

This note provides information about how the Bank determines fair values of various financial assets and financial liabilities.

35.1 Fair value of the Company'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).

Group and Bank Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	31 December 2016	31 December 2015		
1) Financial assets available-for-sale (see Note 22)	Listed equity securities in stock exchange in Bosnia and Herzegovina: • BamCard d.d Sarajevo – KM 115 thousand	Listed equity securities in stock exchange in Bosnia and Herzegovina: • BamCard d.d Sarajevo – KM 115 thousand	Level 1	Quoted bid prices in an active market.
	Listed equity securities on stock exchanges in other countries: • Belgium - KM 64 thousand	Listed equity securities on stock exchanges in other countries: • Belgium - KM 64 thousand		
	Listed debt securities in stock exchange in other countries: • Croatia – KM 8,663 thousand (Baa3/BBB) • Austria – KM 11,565 thousand (AAA/AAA)	Listed debt securities in stock exchange in other countries: • Croatia – KM 8,912 thousand (Baa3/BBB)		
	Listed debt securities in stock exchange in Bosnia and Herzegovina: • FBiH Ministry of Finance – KM 26,878 thousand (B+) • RS Ministry of Finance – KM 16,846thousand (B+) • Cazin Municipality – KM 84 thousand • Hadžići Municipality – KM 200 thousand	Listed debt securities in stock exchange in Bosnia and Herzegovina: • FBiH Ministry of Finance – KM 38,932 thousand (B+) • RS Ministry of Finance – KM 5,596 thousand (B+) • Cazin Municipality – KM 173 thousand • Hadžići Municipality – KM 301 thousand		

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

35. 35. FAIR VALUE MEASUREMENT (CONTINUED)

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

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

	31 December 2016		31 December 2015	
Group and Bank	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and receivables:				
- loans to customers	844.443	845.814	794.894	791.328
Financial liabilities				
Financial liabilities held at amortised cost:				
- due to banks and customers	965.163	968.529	974.349	972.349

Group and Bank	Hijerarhija fer vrijednosti na dan 31. decembar 2016.			
	Nivo 1	Nivo 2	Nivo 3	Ukupno
Financial assets				
Loans and receivables:				
- loans to customers	-	-	845.814	845.814
	-	-	845.814	845.814
Financial liabilities				
Financial liabilities held at amortised cost:				
- due to banks and customers	-	-	968.529	968.529
	-	-	968.529	968.529

The fair values of the financial assets and financial liabilities included in the level 2 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

The calculation of the fair value is determined by discounting future cash flows, using the weighted average interest rate on the state level, published by CBBH separately for corporate and individuals.

36. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board of the Bank on 28 March 2017.

Sanel Kusturica
Director

Amir Softić
Executive director

Impressum

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