Reliability Reliability

Credibility

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Credibility Devotion

Reliability

Reliability Reliability

Credibility

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Reliability

Credibility

Annual report 2015

SPARKASSE BANK

Devotion

Our profile

Sparkasse Bank dd BiH

Account: 1990000000000023
ID nr: 4200128200006
SWIFT: ABSBBA 22

HQ

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

Key figures (2015)

Year of establishment: 1999
Assets: 1,17 billion KM
Majority owner: Steiermärkische Bank und Sparkassen AG, Austria
No. of branches: 43
No. of clients: 135.000
No. of employees: 471

Group members in Bosnia and Hercegovina

LEASING

SPARKASSE
Nekretnine

PREMIUM

Management board

CEO
Sanel Kusturica, MBA

Executive director
mr. Nedim Alihodžić

Executive director
mr. Amir Softić

Supervisory Board

President
Sava Dalbokov, MBA

Members
mr. Gerhard Maier
Ismeta Čardaković
mr. Renate Ferlitz
dr. Georg Bucher

Management Board

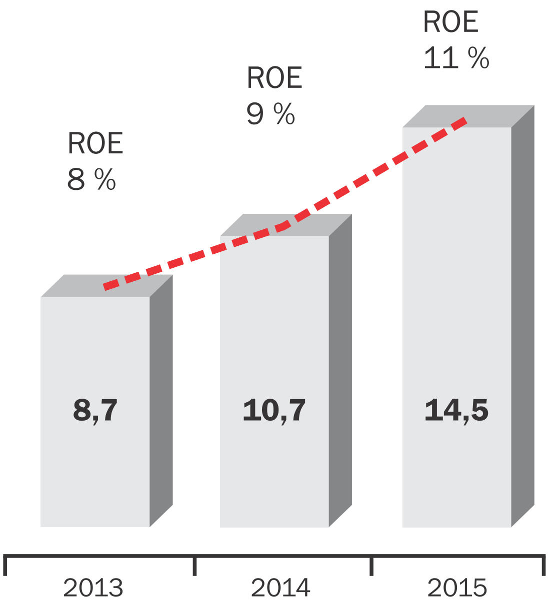
Amir Softić
Executive director

Sanel Kusturica
CEO

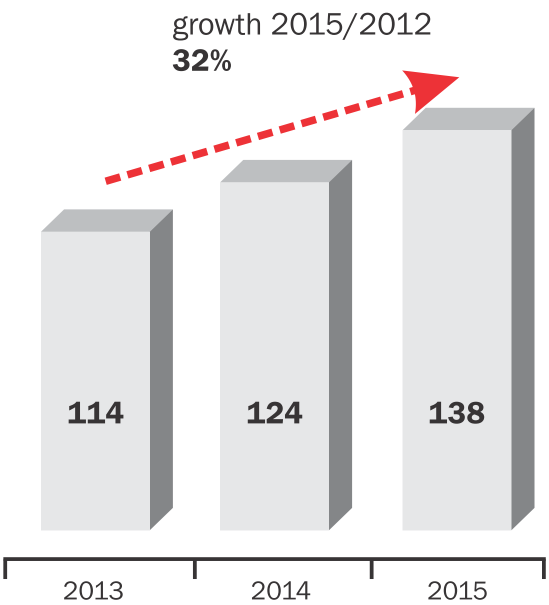
Nedim Alihodžić
Executive director

Key figures

Net profit and ROE

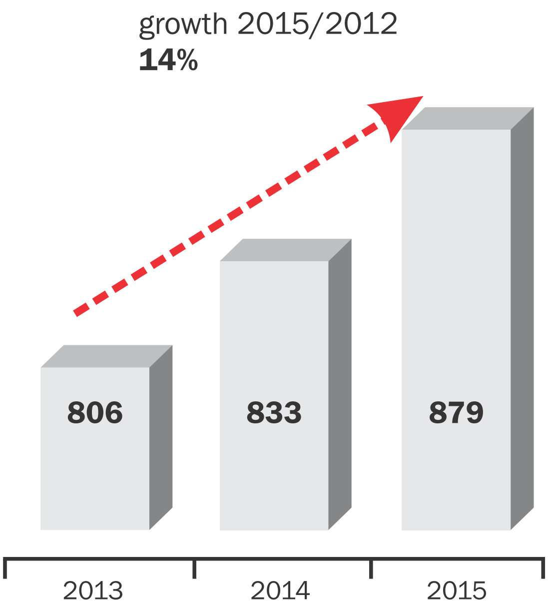


Capital

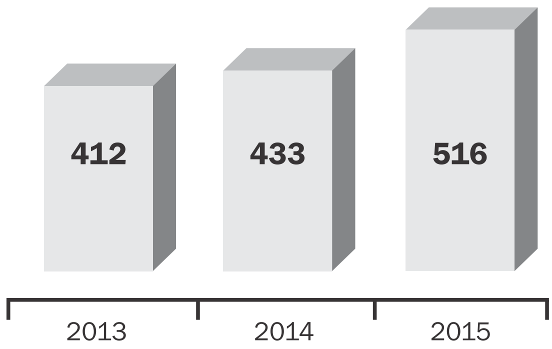


*figures in mil. KM

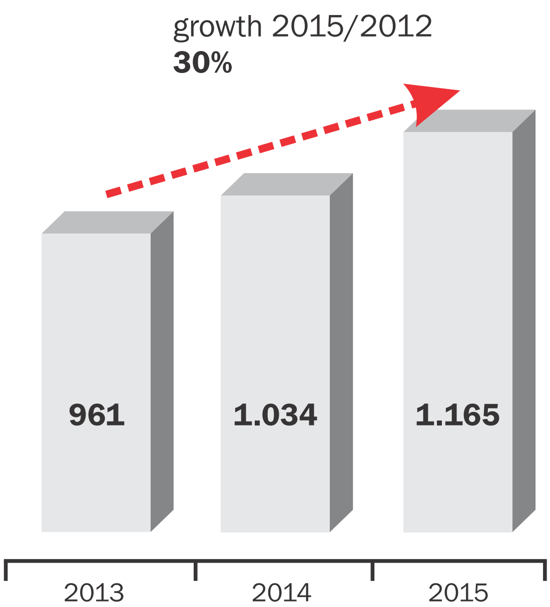
Loans



New placements

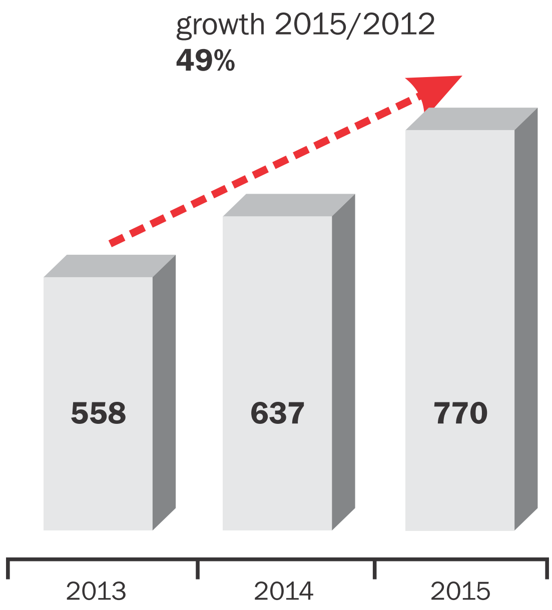


Assets



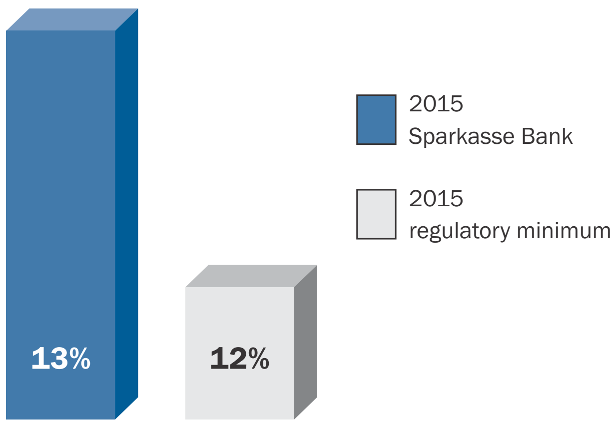
*figures in mil. KM

Clients deposits

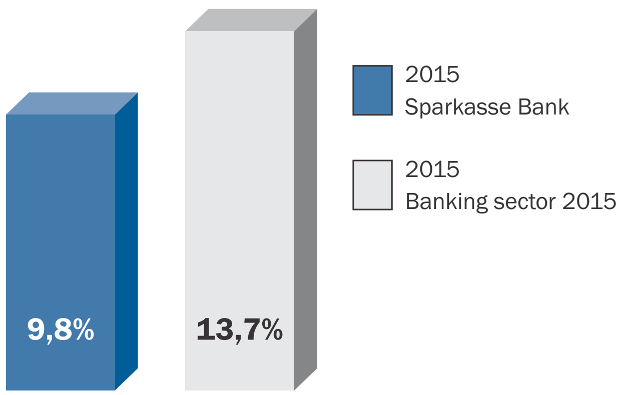


*figures in mil. KM

Capital adequacy



NPL in total loans



2015 - NPL coverage ratio 98,6 %

Reliability and credibility

Erste Group Research

Macro Outlook Bosnia and Herzegovina

August 2016

EU application and promising outlook - opportunity for reforms

Stronger private consumption and investment cycle should support growth rate in excess of 3% in the mid run. On the external front, more promising services exports outlook and stable inflow of remittances should keep C/A imbalances under control, while we also expect a pick-up in FDI. Positive monetary and stable fiscal developments are expected to continue, while the biggest challenges lay on the structural reforms agenda.

- In the first three quarters of 2015 B&H economy expanded by robust 3.2% y/y, supported by strong retail, industrial and net exports performance. With seasonal slowdown in the last quarter we expect FY15 figure to land around 2.5% y/y. In the mid run we expect growth rates in 3-4% region, driven by accelerating investment cycle and stabilization on the labor market which should additionally boost private consumption. Adopted Reforms Agenda and expected new IMF SBA are seen weighing on public consumption contribution. Net exports should have more neutral role as stronger domestic demand will push the import side.

- CPI outlook will be mostly shaped by the low base effect, fading effects of low food prices and accelerating economic activity, so we expect to see the headline figure moving back to green territory towards YE16, moving towards 0.5%-1% region

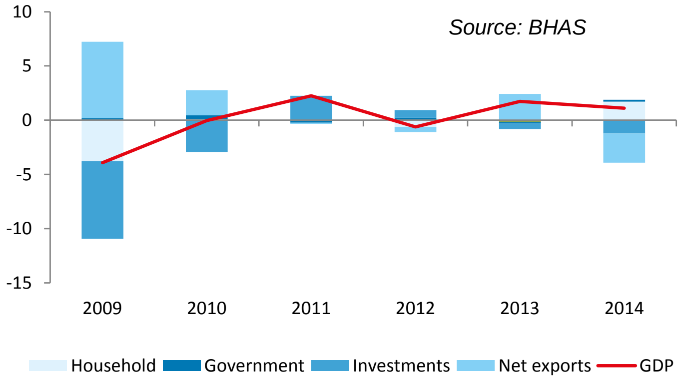
- Subdued imports and robust export performance eased pressures on the trade balance figure recently, but the narrow export base, import-oriented structure of the economy and low value-added export products will keep the figure close to 30% of GDP in the mid run. On the other hand, more promising services outlook (processing and tourism) and stable inflows of remittances, pensions and foreign wages will stay an important offsetting factor, keeping C/A deficit around 7% of GDP. On the financing side, FDI outlook seems more promising with upsides coming from investments in energy, tourism and infrastructure sectors

- Recent developments in the banking sector showed recovery in lending activity to corporates while retail sector kept its robust footprint. With increased deposit base, lower interest rates and improving financial soundness indicators (especially fall in NPL share) we see potential for acceleration of lending activity.

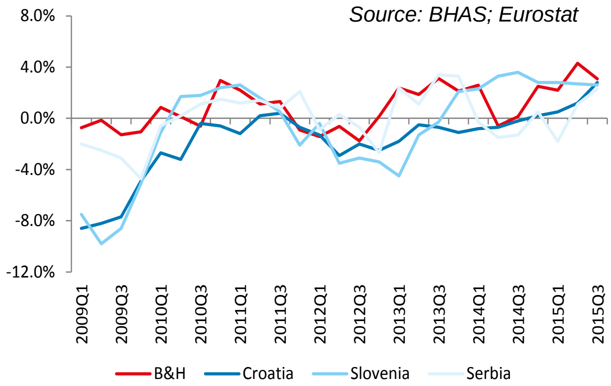
- Main fiscal indicators, i.e. public deficit and debt, still put B&H among the best performers in the CESEE region and we expect no major changes on this front. However, there are many other policy challenges ahead, mainly related to labor market, business climate and pension system reforms, reduction of the share of grey economy and sectoral restructuring. Also, frequent political tensions are still seen as the biggest reform-blocking factor

Note:
**Information on past performance is not a reliable indicator for future performance. Forecasts are not a reliable indicator for future performance.*

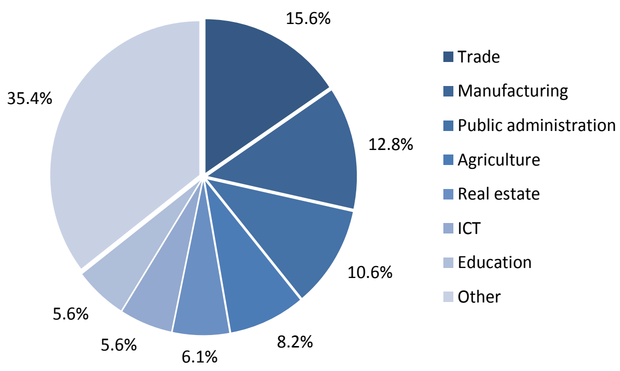
GDP growth mostly driven by domestic demand
Real GDP growth and contributions



One of the top growth-performers in the region
Quarterly GDP (y/y figure)

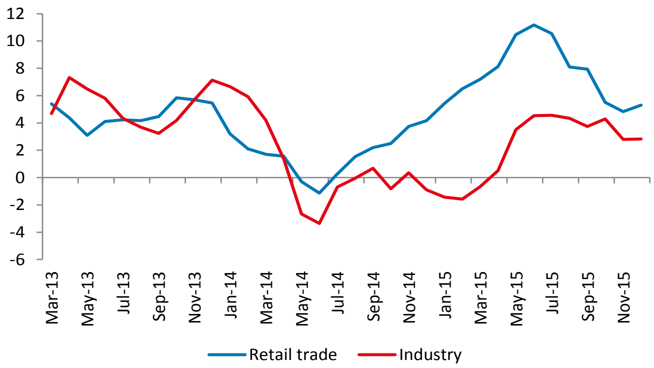


Relatively diversified structure of the economy
Shares of NACE categories in GVA (%)



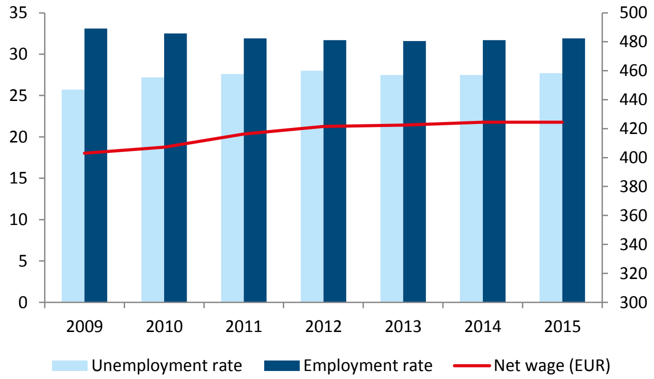
Source: BHAS

Strong retail and industrial footprint
Industrial production and retail trade (y/y)



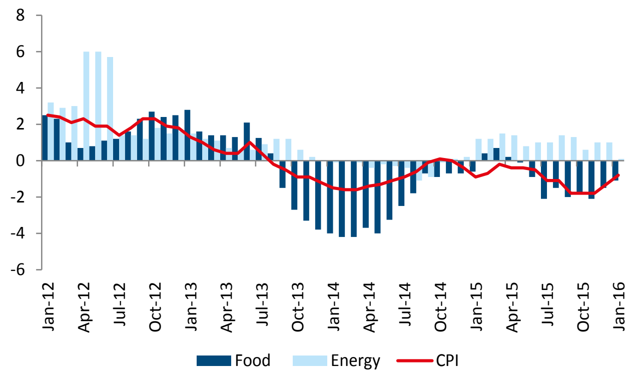
Source: BHAS

Relative stagnation on the labor market
Unemployment, employment (%) and net wages (EUR)



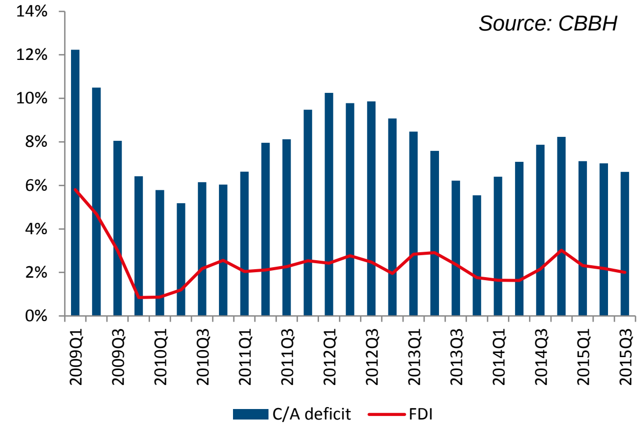
Source: BHAS

Low food prices keeping inflation in red
CPI, food prices and energy prices (y/y)

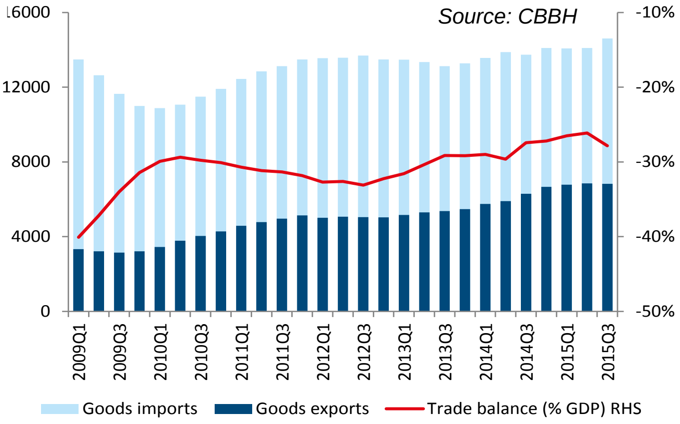


Source: BHAS

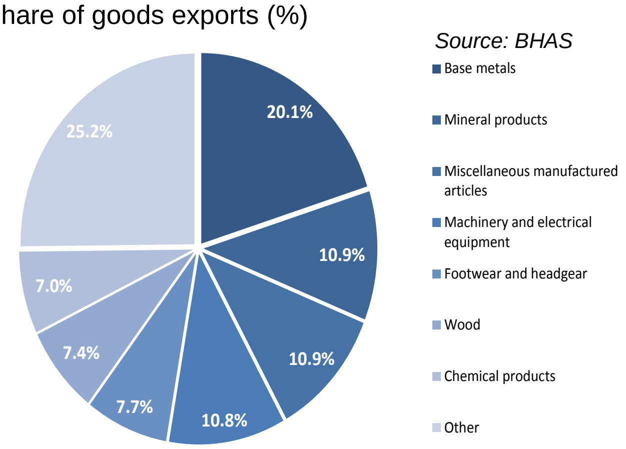
Although narrowing, CAD still on demanding level
C/A deficit and FDI flows (4Q trailing, % GDP)



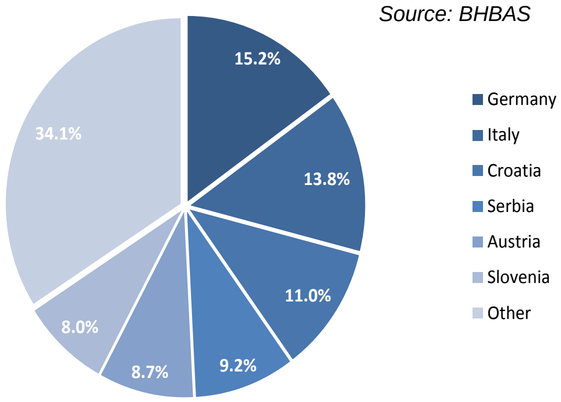
Stronger exports playing stabilizing role
Trade balance (4Q trailing, BAM mn and % GDP)



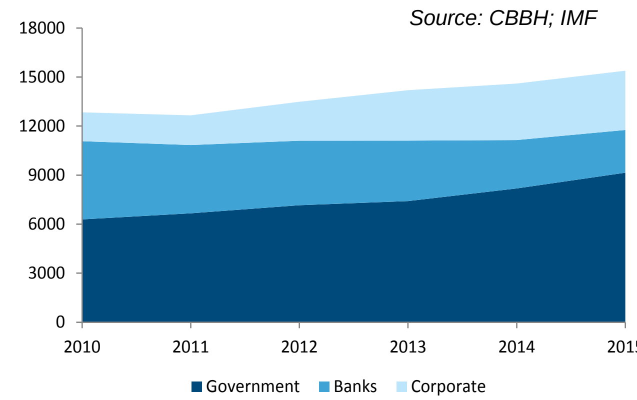
Low value added products dominating export base
Share of goods exports (%)



Main export markets – Germany, Italy and Croatia
Share of total exports by countries (%)

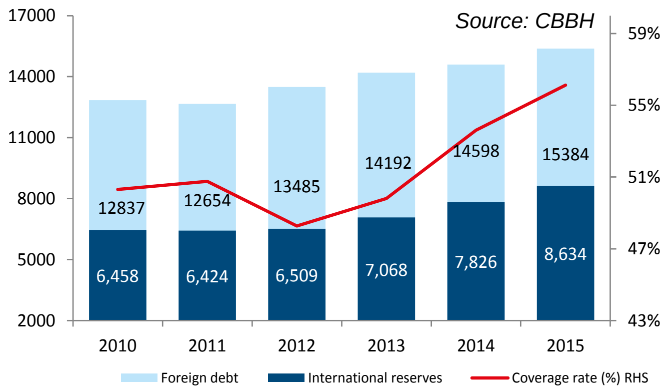


Public borrowing dominating external debt
External debt by sector (BAM mn)*

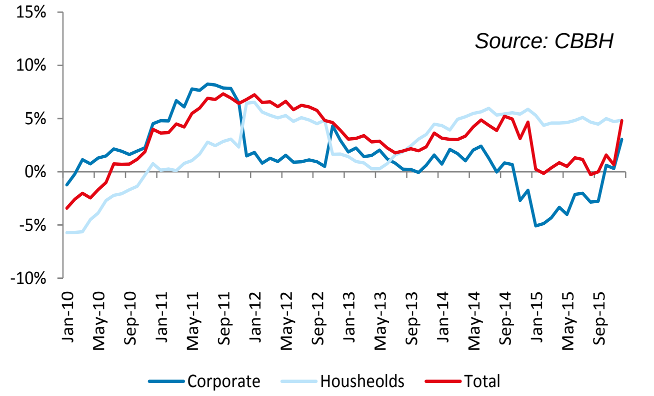


*share of corporate debt estimated from the IMF data on total external debt

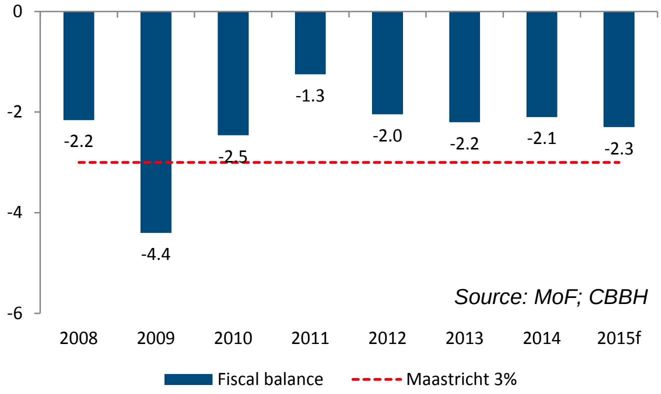
FX reserves-debt coverage ratio still on rise
Foreign debt and international reserves (BAM mn)



Recovery in corporate sector lending activity
Loans to corporate and retail sector (y/y change in %)

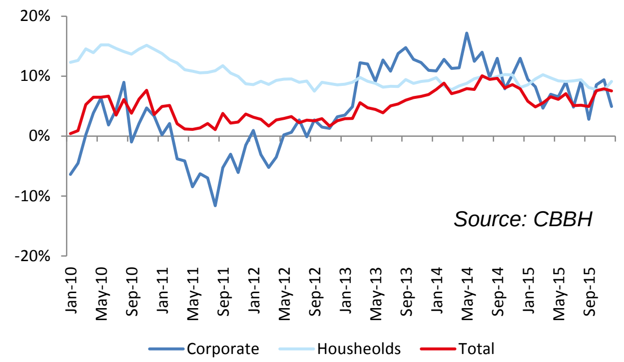


Fiscal deficit below the Maastrich 3% benchmark
General government deficit (% of GDP)

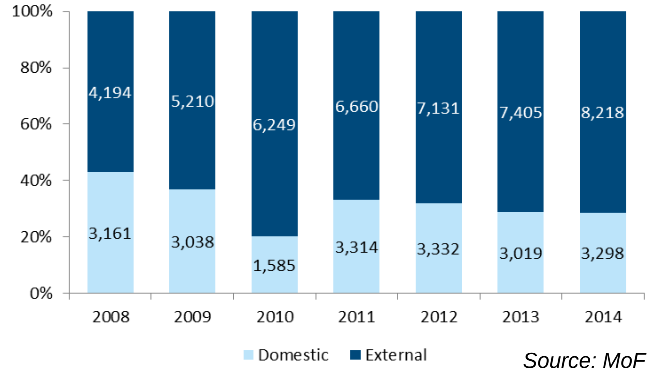


*GDP based on production approach (higher compared to expenditure approach)

Deposit base still on rise
Corporate and retail deposits (y/y change in %)

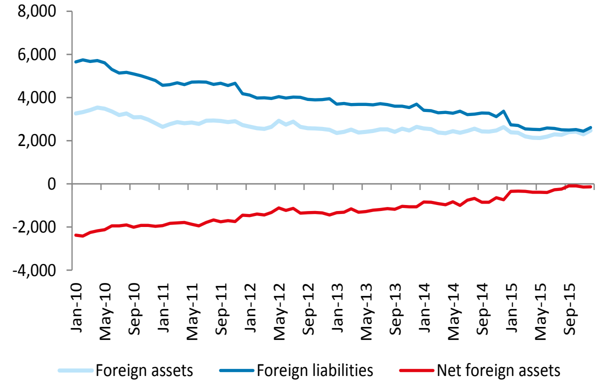


External liabilities dominate the public debt figure
Structure of the public debt (BAM mn)



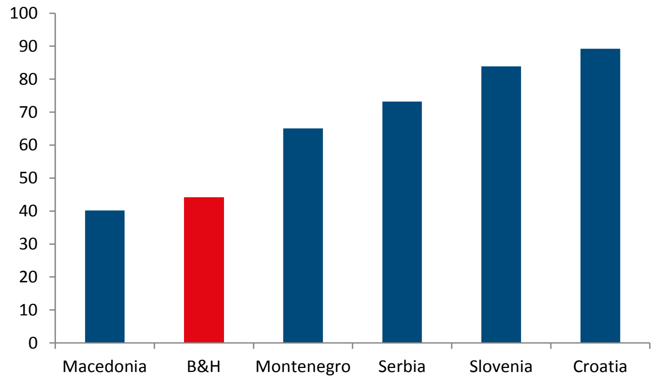
Source: MoF

Ongoing external deleveraging in banking sector
Foreign assets and liabilities of banks (BAM mn)



Source: MoF

Public debt among the lowest in the region
Public debt in 2015 (f) (% of GDP)



Source: Erste Group Research

Financial Report 2015

Sparkasse Bank DD BiH

Financial statements for the year ended 31 December 2015
prepared in accordance with International
Financial Reporting Standards and Independent Auditor's Report

Contents

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 dd Bosna i Hercegovina
SPARKASSE BANK
100

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

21 April 2016

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 46, which comprise of the consolidated statement of financial position as at 31 December 2015 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 2015, 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 2015, 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

Adnan Bahtanović, licensed auditor

Deloitte
d.o.o.
Jadranska bb
71000 Sarajevo
ID: 4200047380000

Sarajevo, Bosnia and Herzegovina

21 April 2016

Statement of profit or loss and other comprehensive income
for the year ending 31 December 2015
(all amount are expressed in thousand KM, unless otherwise stated)

	Notes	Group 2015	Group 2014	Bank 2015	Bank 2014
Interest and similar income	5	55,333	56,907	55,333	56,907
Interest and similar expenses	6	(12,904)	(15,481)	(12,904)	(15,481)
Net interest income		**42,429**	**41,426**	**42,429**	**41,426**
Fee and commission income	7	19,592	17,872	19,592	17,872
Fee and commission expense	8	(2,694)	(2,194)	(2,694)	(2,194)
Net fee and commission income		**16,898**	**15,678**	**16,898**	**15,678**
Foreign exchange gains, net	9	2,264	1,569	2,264	1,569
Other operating income	10	2,092	1,878	2,192	1,964
Operating income		**4,356**	**3,447**	**4,456**	**3,533**
Personnel expenses	11	(18,137)	(17,234)	(18,137)	(17,234)
Depreciation and amortization	24, 25	(3,237)	(3,211)	(3,237)	(3,211)
Other administrative expenses	12	(17,582)	(16,733)	(17,582)	(16,733)
Operating expenses		**(38,956)**	**(37,178)**	**(38,956)**	**(37,178)**
Profit participation in joint companies	21	**558**	**(20)**	**-**	**-**
PROFIT BEFORE IMPAIRMENT LOSSES, PROVISIONS AND INCOME TAX		**24,727**	**23,373**	**24,827**	**23,459**
Impairment losses and provisions	13	(10,983)	(11,216)	(10,983)	(11,216)
Other provisions	14	413	(1,582)	413	(1,582)
Collected written off receivables		1,682	1,312	1,682	1,312
PROFIT BEFORE TAXATION		**16,397**	**11,867**	**15,939**	**11,973**
Income tax	15	(1,471)	(1,252)	(1,471)	(1,252)
NET PROFIT FOR THE YEAR		**14,926**	**10,615**	**14,468**	**10,721**
Other comprehensive loss					
Changes in fair value of financial assets available-for-sale, net		(466)	(82)	(466)	(82)
TOTAL COMPREHENSIVE INCOME		**14,460**	**10,533**	**14,002**	**10,639**
Earnings per share (in KM)	16	**17.26**	**12.28**	**16.73**	**12.40**

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

Statement of financial position
for the year ending 31 December 2015

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

	Notes	Group 31 December 2015	Group 31 December 2014	Bank 31 December 2015	Bank 31 December 2014
ASSETS					
Cash and accounts with other Banks	17	164,706	140,478	164,706	140,478
Obligatory reserve with the CBBH	18	91,130	63,162	91,130	63,162
Placements with other Banks	19	1,902	395	1,902	395
Loans and advances to customers	20	794,894	758,186	794,894	758,186
Investment in joint companies	21	1,653	1,195	705	705
Financial assets available-for-sale	22	57,661	29,391	57,661	29,391
Deferred tax assets	15	266	-	266	-
Other assets	23	10,933	3,718	10,933	3,718
Prepaid expenses		793	1,071	793	1,071
Tangible and intangible assets	24	35,562	31,342	35,562	31,342
Investment property	25	5,798	5,926	5,798	5,926
		1,165,298	**1,034,864**	**1,164,350**	**1,034,374**
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		29,306	23,998	28,762	23,402
Regulatory reserves		6,097	790	6,151	790
Revaluation reserves		(422)	44	(422)	44
Profit for the year		14,926	10,615	14,468	10,721
		139,359	**124,920**	**138,411**	**124,430**
LIABILITIES					
Due to other banks	26	202,870	228,783	202,870	228,783
Due to customers	27	771,478	639,306	771,478	639,306
Due for loans taken	28	37,018	28,864	37,018	28,864
Provisions	29	7,304	7,827	7,304	7,827
Income tax liabilities		237	10	237	10
Other liabilities	30	7,032	5,154	7,032	5,154
		1,025,939	**909,944**	**1,025,939**	**909,944**
TOTAL LIABILITIES AND EQUITY		**1,165,298**	**1,034,864**	**1,164,350**	**1,034,374**

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

Signed for the and in the name of Sparkasse Bank d.d. on 21 April 2016.

Sparkasse Bank dd Bosna i Hercegovina
SPARKASSE BANK
100

Sanel Kusturica
Director

Amir Softić
Executive director

Statement of cash flows
for the year ending 31 December 2015
(all amounts are expressed in thousand KM, unless otherwise stated)

	Group 2015	Group 2014	Bank 2015	Bank 2014
Operating activities				
Profit before taxation	16,397	11,867	15,939	11,973
Adjustments:				
Depreciation and amortization	3,237	3,211	3,237	3,211
Impairment of tangible and intangible assets	-	314	-	314
Impairment losses and provisions	10,570	12,484	10,570	12,484
Gain on sale of tangible and intangible assets, net	(971)	(860)	(971)	(860)
Profit participation in joint companies	(558)	20	-	-
Interest income from financial assets available-for-sale in the statement of profit and loss and other comprehensive income	(1,203)	(1,231)	(1,203)	(1,231)
Dividend income recognized in the statement of profit and loss and other comprehensive income	(14)	-	(114)	(86)
Cash flow before changes in operating assets and liabilities:	*27,458*	*25,805*	*27,458*	*25,805*
Increase in obligatory reserve with the CBBH, net	(27,968)	(8,118)	(27,968)	(8,118)
Increase in placements with other banks, before allowance, net	(2,096)	(311)	(2,096)	(311)
Increase in loans and advances to customers, before allowance, net	(46,461)	(32,462)	(46,461)	(32,462)
Increase in other assets, before allowance, net	(7,865)	(1,139)	(7,865)	(1,139)
Decrease in due to other banks, net	(25,913)	(27,337)	(25,913)	(27,337)
Increase in due to customers, net	132,172	78,482	132,172	78,482
Decrease in provisions, net	(110)	(65)	(110)	(65)
Increase in other liabilities, net	1,868	1,104	1,868	1,104
Cash generated in operating activities	**51,085**	***35,959***	**51,085**	***35,959***
Income tax paid	(1,234)	(1,272)	(1,234)	(1,272)
NET CASH GENERATED IN OPERATING ACTIVITIES	**49,851**	**34,687**	**49,851**	**34,687**
Investing activities				
(Sale) / proceeds of financial assets available-for-sale	(27,412)	8,038	(27,512)	7,952
Purchase of tangible and intangible assets	(7,453)	(3,044)	(7,453)	(3,044)
Proceeds from disposal of tangible and intangible assets	1,095	1,047	1,095	1,047
Dividend received	14	-	114	86
NET CASH (USED) / GENERATED IN INVESTING ACTIVITIES	**(33,756)**	**6,041**	**(33,756)**	**6,041**
Financial activities				
Repayment of loans taken	8,154	8,976	8,154	8,976
Acquired treasury shares	(21)	-	(21)	-
NET CASH GENERATED IN FINANCIAL ACTIVITIES	**8,133**	**8,976**	**8,133**	**8,976**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**24,228**	**49,704**	**24,228**	**49,704**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**140,478**	**90,774**	**140,478**	**90,774**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**164,706**	**140,478**	**164,706**	**140,478**

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

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

Group	Share capital	Treasury shares	Share premium	Accumulated income	Regulatory reserves	Revaluation reserves	Profit for the year	Total
31 December 2013	**86,473**	**-**	**3,000**	**14,731**	**790**	**126**	**9,267**	**114,387**
Profit distribution for year 2013	-	-	-	9,267	-	-	(9,267)	-
Net profit for the year	-	-	-	-	-	-	10,615	10,615
Other comprehensive loss	-	-	-	-	-	(82)	-	(82)
Total comprehensive income	-	-	-	-	-	*(82)*	*10,615*	*10,533*
31 December 2014	**86,473**	**-**	**3,000**	**23,998**	**790**	**44**	**10,615**	**124,920**
Profit distribution for year 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**

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

Statement on changes in equity
for the year ending 31 December 2015
(all amounts are expressed in thousand KM, unless otherwise stated)

Bank	Share capital	Treasury shares	Share premium	Accumulated income	Regulatory reserves	Revaluation reserves	Profit for the year	Total
31 December 2013	**86,473**	**-**	**3,000**	**14,677**	**790**	**126**	**8,725**	**113,791**
Profit distribution for year 2013	-	-	-	8,725	-	-	(8,725)	-
Net profit for the year	-	-	-	-	-	-	10,721	10,721
Other comprehensive loss	-	-	-	-	-	(82)	-	(82)
Total comprehensive income	*-*	*-*	*-*	*-*	*-*	*(82)*	*10,721*	*10,639*
31 December 2014	**86,473**	**-**	**3,000**	**23,402**	**790**	**44**	**10,721**	**124,430**
Profit distribution for year 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**	**28,762**	**6,151**	**(422)**	**14,468**	**138,411**

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: Graben 21, Wiena, Austria.

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

Company	Business activity	Country	31 December 2015 Share %	31 December 2014 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	Real estate	Bosnia and Herzegovina	49	49

Principal activities of the Bank

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

- Accepting deposit and placing of deposits,
- Providing current and term deposit accounts,
- Granting short and long-term loans and guarantees,
- Transactions on the interbank money market,
- Performing local and international payments,
- Debit and credit card operations,
- Providing banking services through a branch network in the Federation of Bosnia and Herzegovina.

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
Manfred Lackner	Member
Slaviša Kojić	Member
Sandra Petrcizek-Mahr	Member since 20 May 2015
Aida Sivro	Member since 20 May 2015
Walburga Seidl	Member since 20 May 2015
Bernd Egger	Member since 20 May 2015

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:

- Amendments to IAS 19: “Employee Benefits” – Defined plans of employee benefits: employee contributions (effective for annual periods beginning on or after 1 July 2014);
- Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)” resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014);
- Amendments to various standards “Improvements to IFRSs (cycle 2011-2013)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014);

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 (2014): “Financial Instruments” (effective for annual periods beginning on or after 1 January 2018);
- IFRS 14: “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016);
- IFRS 15: “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018),
- IFRS 16: “Leases” (effective for annual periods beginning on or after 1 January 2019);
- 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 (effective date postponed indefinitely);
- Amendments to IAS 1: “Presentation of Financial Statements” – Disclosure initiative (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 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” - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 27: “Separate Financial Statements” – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 7: “Statement of Cash Flows” – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017);

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

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

- Amendments to IAS 12: "Income Taxes" – Recognition of deferred tax assets from non-performed losses (effective for annual periods beginning on or after 1 January 2017);
- 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 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 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, except for IFRS 9. Management is currently analysing the impact of IFRS 9 on the Bank's financial statements.

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:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

- 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

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. 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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Other financial liabilities (continued)

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

Derecognition of financial liabilities

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

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. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred.

Significant improvements and replacement of assets are capitalised. 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 depreciation rates were as follows:

	2015	2014
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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tangible and intangible assets (continued)

Impairment (continued)

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

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

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

As of 31 December 2015 tangible assets of the Bank are not impaired, while as of 31 December 2014 tangible assets of the Bank are impaired in amount of KM 314 thousand.

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)

Foreign currency translation (continued)

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

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

Provisions

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

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

Equity and reserves

Share capital

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

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 2014 and 2015 there were no dilution effects.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies, which are described in Note 3, the Management is required to make judgments, estimates and 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 913 thousand (2014: KM 1,177 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	2015	2014
Interest on loans to companies	25,975	28,027
Interest on loans to individuals	28,007	27,432
Interest on bond investment	1,203	1,232
Interest on placements with other banks	148	178
Interest on funds with the CBBH	-	38
	55,333	56,907

6. INTEREST AND SIMILAR EXPENSES

Group and Bank	2015	2014
Interest on deposits from individuals	7,784	8,257
Interest on deposits from companies	2,742	4,043
Interest on deposits and loans from banks	2,378	3,181
	12,904	15,481

7. FEE AND COMMISSION INCOME

Group and Bank	2015	2014
Fees from payment transactions	16,299	14,663
Fees from conversion transactions	1,740	1,751
Fees from off-balance sheet transactions	1,553	1,458
	19,592	17,872

8. FEE AND COMMISSION EXPENSE

Group and Bank	2015	2014
Fees and commissions from payment transactions	2,307	1,807
Other fees from banks	387	387
	2,694	2,194

9. FOREIGN EXCHANGE GAINS, NET

Group and Bank	2015	2014
Gain on foreign exchange transactions	192,335	82,229
Loss on foreign exchange transactions	(190,071)	(80,660)
	2,264	1,569

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

10. OTHER OPERATING INCOME

	Group 2015	*Group* 2014	*Bank* 2015	*Bank* 2014
Income on disposal of tangible and intangible assets	975	860	975	860
Rent income	629	612	629	612
Dividend income - financial assets available-for-sale	14	-	14	-
Dividend income - investment in joint companies	-	-	100	86
Other	474	406	474	406
	2,092	**1,878**	**2,192**	**1,964**

11. PERSONNEL EXPENSES

The average employee number of the Bank during the year ending December 31, 2015, and year ending December 31, 2014 was 476, 468 respectively.

Group and Bank	2015	2014
Net salaries	9,505	9,253
Taxes and contributions	5,665	5,516
Other	2,967	2,465
	18,137	**17,234**

12. OTHER ADMINISTRATIVE EXPENSES

Group and Bank	2015	2014
Services	4,256	3,954
Insurance	2,282	2,263
Rent	1,749	1,724
Telecommunication	1,720	1,550
Other taxes and contributions	1,360	992
Maintenance	1,067	1,305
Transport	1,157	1,030
Advertising and entertainment	971	1,097
Energy	813	799
Material	755	692
Agency fees	658	628
Supervisory board reimbursement	118	118
Other administrative expenses	676	581
	17,582	**16,733**

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

13. IMPAIRMENT LOSSES AND PROVISIONS

Group and Bank	2015	2014
Loans and advances to customers (Note 20)	9,753	10,436
Other assets (Note 23)	662	436
Tangible and intangible assets (Note 24)	-	314
Cash and accounts with other Banks (Note 17)	558	44
Placements with other Banks (Note 19)	31	5
Financial assets available-for- sale (Note 22)	(21)	(19)
	10,983	**11,216**

14. OTHER PROVISIONS

Group and Bank	2015	2014
Provisions for off balance (Note 29)	(1,259)	1,002
Employee benefits (Note 29)	441	215
Provision for legal proceedings (Note 29)	(154)	50
Other provisions (Note 29)	559	315
	(413)	**1,582**

15. INCOME TAX

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

Group and Bank	2015	2014
Current income tax	1,737	1,252
Deferred income tax	(266)	-
	1,471	**1,252**

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

	Group 2015	*Group* 2014	*Bank* 2015	*Bank* 2014
Profit before income tax	**16,397**	**11,867**	**15,939**	**11,973**
Income tax expense at prescribed rate of 10%	**1,640**	***1,187***	**1,594**	**1,197**
Non-taxable income	(63)	(9)	(63)	(9)
Effects of non-deductible expenses	206	64	206	64
Effects of dividends and profit participation for which the taxes have been paid	(46)	10	-	-
Current income tax	**1,737**	**1,252**	**1,737**	**1,252**
Effective income tax rate	**10.59%**	**10.55%**	**10.90%**	**10.46%**

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

15. INCOME TAX (CONTINUED)

Movement in deferred tax assets can be presented as follows:

Group and Bank	2015	2014
Balance at the beginning of the year	-	-
Increase	266	-
Balance at the end of the year	**266**	**-**

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	*Group*	*Bank*	*Bank*
	2015	**2014**	**2015**	**2014**
Profit attributable to ordinary shareholders	14,926	10,615	14,468	10,721
Weighted average number of regular shares for the year	864,721	864,733	864,721	864,733
Basic earnings per share (KM)	**17.26**	**12.28**	**16.73**	**12.40**

Diluted earnings per share are not presented as the Bank has not issued dilutive equity instruments.

17. CASH AND ACCOUNTS WITH OTHER BANKS

Group and Bank	31 December 2015	31 December 2014
Cash at hand	46,182	37,273
Correspondent accounts with other banks in foreign currencies	89,318	74,280
Account with the CBBH in domestic currency	29,867	29,028
Total before provisions	**165,367**	**140,581**
Less: Impairment losses	(661)	(103)
	164,706	**140,478**

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	2015	2014
Balance at 1 January	**103**	**59**
Movements in provisions, net (Note 13)	558	44
Balance at 31 December	**661**	**103**

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

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

Group and Bank	31 December 2015	31 December 2014
Specific reserve by Law on banks, article 42a	20,382	-
Obligatory reserve with the CBBH	70,748	63,162
	91,130	**63,162**

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.

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

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.

19. PLACEMENTS WITH OTHER BANKS

Group and Bank	31 December 2015	31 December 2014
Placements with other banks		
Placements on money market	1,941	403
	1,941	*403*
Total before provisions	**1,941**	**403**
Less: Impairment losses	(39)	(8)
	1,902	**395**

At 31 December 2015 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	2015	2014
Balance at 1 January	**8**	**3**
Movements (Note 13)	31	5
Balance at 31 December	**39**	**8**
Expected to be recovered:		
- no more than 12 months after the reporting period	1,941	403
- more than 12 months after the reporting period	-	-
Less: Impairment	(39)	(8)
	1,902	**395**

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

20. LOANS AND ADVANCES TO CUSTOMERS, NET

Group and Bank	31 December 2015	31 December 2014
Long-term loans		
Retail	360,859	336,081
Corporate	298,993	282,176
	659,852	*618,257*
Short-term loans		
Corporate	23,264	23,697
Retail	197,165	192,462
	220,429	*216,159*
Total loans before impairment losses	***880,281***	***834,416***
Less: Impairment losses based on individual assessment	(47,421)	(43,714)
Less: Impairment losses based on group assessment	(37,966)	(32,516)
	794,894	**758,186**

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

Group and the Bank	2015	2014
Balance at 1 January	**76,230**	**70,862**
Movements in provisions, net (Note 13)	9,753	10,436
Reclassification of off-balance receivables due to re-recognition	250	-
Transfer to other assets (Note 23)	(306)	(3,253)
Write-offs	(18)	(20)
Unwinding	(522)	(1,795)
Balance at 31 December	**85,387**	**76,230**

Loans and allowances presented in table above include loan principle in the amount of KM 5,089 thousand (2014: KM 4,895 thousand) and decreased for prepaid loan fees amounting KM 3,700 thousands (2014: KM 3,764 thousand).

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

Group and Bank	31 December 2015	31 December 2014
Financial services	3,077	4,341
Construction	37,819	32,535
Hotels and restaurants	4,672	5,736
Public administration and defence, obligatory social insurance	317	394
Real and rent estates and business activities	22,073	26,260
Education	285	564
Energy, gas and water supply	3,315	2,176
Other	276,290	276,307
Manufacture	139,937	117,180
Mining	4,243	4,789
Healthcare and social work	4,130	4,356
Population	384,123	359,778
	880,281	**834,416**

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

20. LOANS AND ADVANCES TO CUSTOMERS, NET (CONTINUED)

The amounts presented in table above include loan principle increased by interest receivables and decreased for prepaid loan fees as of 31 December 2015, and 31 December 2014. Total amount of non-performing loans was KM 85,813 thousand and KM 78,189 thousand as at 31 December 2015 and 2014, respectively.

Weighted average interest rate on loans and advances to customers as at 31 December 2015 can be presented as follows:

Group and Bank	**2015**	**2014**
Corporate	5.56%	6.20%
Individuals	7.42%	7.60%

21. INVESTMENT IN JOINT COMPANIES

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

Name of the company	*Group* 31 December 2015	*Group* 31 December 2014	*Bank* 31 December 2015	*Bank* 31 December 2014
Sparkasse Leasing d.o.o Sarajevo	1,442	998	607	607
S-Premium d.o.o Sarajevo	151	147	49	49
Sparkasse Nekretnine d.o.o Sarajevo	60	50	49	49
	1,653	**1,195**	**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 2015	**31 December 2014**
Total assets	53,191	57,558
Total liabilities	(49,815)	(55,118)
Net assets	3,376	2,440
Participation in net assets of joint companies	**1,653**	**1,195**

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

	Group	*Group*	*Bank*	*Bank*
	Share method		*Cost method*	
	2015	**2014**	**2015**	**2014**
Balance at 1 January	**1,195**	**1,301**	**705**	**705**
Dividends paid (Note 10)	(100)	(86)	-	-
Share of joint company net result	558	(20)	-	-
Balance at 31 December	**1,653**	**1,195**	**705**	**705**

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

22. FINANCIAL ASSETS AVAILABLE-FOR-SALE

Group and Bank	31 December 2015	31 December 2014
Total equity instruments:	**179**	**139**
Goverment of Federation Bosnia and Herzegovina and Republic of Srpska – bonds	45,002	10,766
Government of Republic of Croatia – bonds	8,912	9,793
Goverment of Federation Bosnia and Herzegovina and Republic of Srpska – treasury bills	3,773	8,919
Total equity securities	**57,687**	**29,478**
Less: Impairment losses	(205)	(226)
	57,661	**29,391**

Interest rate on treasury bills amounted from 0.61% to 3.2% p.a. during 2015 (2014: 0.8% to 2.423%), and on bonds interest rate amounted to 2.5% to 6.1% p.a. during 2015 (2014: 2.5% to 6.5%).

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

Group and Bank	2015	2014
Balance at 1 January	**226**	**245**
Movements in provisions, net (Note 13)	(21)	(19)
Balance at 31 December	**205**	**226**

Expected to be recovered:		
- no more than 12 months after the reporting period	3,793	13,662
- more than 12 months after the reporting period	54,073	15,955
Less: Impairment	(205)	(226)
	57,661	**29,391**

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

23. OTHER ASSETS

Group and Bank	31 December 2015	31 December 2014
Receivables from foreign banks - currency in transit	7,291	4
Acquired tangible assets	4,030	4,826
Authorized exchange office receivables	1,591	1,641
Fees and commission receivables	1,184	1,128
Domestic transactions receivables	885	747
Inventories	224	117
Western union receivables	56	68
VAT receivables	2	2
Other assets	1,884	1,733
Total other assets before impairment losses	***17,147***	***10,266***
Less: Impairment losses	(6,214)	(6,548)
	10,933	**3,718**

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

Group and Bank	2015	2014
Balance at 1 January	**6,548**	**3,620**
Provisions movements, net (Note 13)	662	436
Transfer of loans and allowances receivables (Note 20)	306	3,253
Acquired tangible assets disposal	(978)	(745)
Write - offs	(324)	(16)
Balance at 31 December	**6,214**	**6,548**

(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 equipment	Patents, licences and software	Leasehold improve-ments	Investment in progress	Total
COST								
As at 31 December 2013	**25,194**	**3,293**	**704**	**9,797**	**5,999**	**1,312**	**1,126**	**47,425**
Additions	-	-	-	-	-	-	3,044	3,044
Transfer (from) / to	41	1,381	134	590	915	105	(3,166)	-
Write offs	-	(894)	(191)	(357)	(4)	(107)	-	(1,553)
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**
ACCUMULATED DEPRECIATION								
As at 31 December 2013	**2,209**	**2,823**	**229**	**5,200**	**4,198**	**884**	**-**	**15,543**
Depreciation	502	257	122	1,153	873	176	-	3,083
Write offs	-	(889)	(73)	(299)	(4)	(101)	-	(1,366)
Impairment losses (Note 13)	314	-	-	-	-	-	-	314
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**
NET BOOK VALUE								
As at 31 December 2015	**24,551**	**1,795**	**926**	**4,197**	**2,741**	**361**	**991**	**35,562**
As at 31 December 2014	**22,210**	**1,589**	**369**	**3,976**	**1,843**	**351**	**1,004**	**31,342**

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

25. INVESTMENT PROPERTY

Group and Bank	**Buildings**
COST	
As at 31 December 2013	**6,440**
Additions	-
As at 31 December 2014	**6,440**
Additions	-
As at 31 December 2015	**6,440**
ACCUMULATED DEPRECIATION	
As at 31 December 2013	**386**
Depreciation	128
As at 31 December 2014	**514**
Depreciation	128
As at 31 December 2015	**642**
NET BOOK VALUE	
As at 31 December 2015	**5,798**
As at 31 December 2014	**5,926**

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 5,797 thousand (2014: KM 5,926 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 629 thousand – Note 10 (2014 – KM 612 thousand), while the direct costs for the year amounted to KM 47 thousand (2014 – KM 58 thousand). According to Management Board opinion fair value of investment properties as at 31 December 2015 and 2014 does not significantly differs from the carrying value of the building during 2015 and 2014.

26. DUE TO OTHER BANKS

Group and Bank	**31 December 2015**	**31 December 2014**
Demand deposits		
In KM	6,756	7,306
In foreign currencies	599	1,304
	7,355	***8,610***
Term deposits		
In KM	11,500	257
In foreign currencies	184,015	219,916
	195,515	***220,173***
	202,870	**228,783**

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

27. DUE TO CUSTOMERS

Group and Bank	31 December 2015	31 December 2014
Demand deposits:		
Individuals:		
In KM	109,081	80,268
In foreign currencies	47,736	41,272
	156,817	*121,540*
Corporate:		
In KM	153,771	106,401
In foreign currencies	26,380	18,744
	180,151	*125,145*
Other government and non-government organisations:		
In KM	27,538	18,930
In foreign currencies	6,300	6,603
	33,838	*25,533*
Total demand deposits	**370,806**	**272,218**
Term deposits:		
Individuals:		
In KM	136,395	135,152
In foreign currencies	158,358	145,524
	294,753	*280,676*
Corporate:		
In KM	81,394	60,025
In foreign currencies	3,124	21,337
	84,518	*81,362*
Other government and non-government organisations:		
In KM	21,379	5,046
In foreign currencies	22	4
	21,401	*5,050*
Total term deposits	**400,672**	**367,088**
	771,478	**639,306**

Demand deposits interest rates ranged from 0.00% to 0.14% annually, i.e. from 0.00% to 0.10% annually, and for term deposits from 0.14% to 2.37% annually, and from 0.10% to 3.14%, for the years ended 31 December 2015 and 2014, respectively.

28. DUE FOR LOANS TAKEN

Group and Bank	31 December 2015	31 December 2014
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*	30,027	19,610
European Bank for Reconstruction and Development (EBRD) – *weighted average interest rate 1.60% p.a., maturity on 8 July 2018*	6,336	8,458
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*	655	796
	37,018	**28,864**

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

29. PROVISIONS

Group and Bank	31 December 2015	31 December 2014
Provisions for off balance items	2,782	4,041
Provisions for employee benefits	2,183	1,742
Provisions for legal proceedings	913	1,177
Other provisions	1,426	867
	7,304	**7,827**

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 December 2015	31 December 2014
Granted but undrawn loans	98,513	77,912
Performance guarantees	38,969	27,037
Payment guarantees	32,404	25,423
Acreditives	2,880	3,864
	172,766	**134,236**

As of 31 December 2015, 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 - 6%;
- expected wage growth rate of 1% p.a. (until retirement) (2014: expected wage growth rate 1.5%);
- 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 2014	**3,039**	**1,527**	**1,192**	**552**	**6,310**
Additional provisions recognized, net (Note 14)	1,002	1,367	50	315	2,734
Release due to re-measurement (Note 14)	-	(1,152)	-	-	(1,152)
Release due to payments	-	-	(65)	-	(65)
Balance at 31 December 2014	**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**

30. OTHER LIABILITIES

Group and Bank	31 December 2015	31 December 2014
Liabilities towards employees	1,331	1,307
Liabilities towards suppliers	1,768	1,646
Liabilities for unallocated payments	1,908	465
Liabilities for taxes	35	61
Other liabilities	1,990	1,675
	7,032	**5,154**

31. SHARE CAPITAL

Shareholding structure as at 31 December 2015 and 2014 was as follows.

	31 December 2015			31 December 2014		
Group and Bank	No. of shares	Amount in KM '000	%	No. of shares	Amount in KM '000	%
Steiermarkische Bank und Sparkassen AG, Graz, Austria	839,006	83,901	97.0	839,006	83,901	97.0
Other	25,727	2,572	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 2015		31 December 2014	
Group and Bank	Receivables	Liabilities	Receivables	Liabilities
Steiermarkische Bank und Sparkassen AG. Graz, Austria	7,261	180,196	205	220,225
	7,261	**180,196**	**205**	**220,225**

	2015		2014	
Group and Bank	Income	Expense	Income	Expense
Steiermarkische Bank und Sparkassen AG. Graz, Austria	11	1,843	25	2,964
	11	**1,843**	**25**	**2,964**

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

32. RELATED-PARTY TRANSACTIONS (CONTINUED)

Transactions with other related parties

	31 December 2015		31 December 2014	
Group and Bank	Receivables	Liabilities	Receivables	Liabilities
Erste and Steiermarkische bank d.d Zagreb, Croatia Erste Bank der	11,384	-	2,863	221
Sparkasse Bank a.d Skoplje, Macedonia	9,781	-	2	-
Oesterreichischen Sparkassen AG Vienna, Austria	7,460	4,095	24,832	756
S Leasing d.o.o Sarajevo, BiH	10	1,067	48	2,064
S Premium d.o.o Sarajevo, BiH	-	926	-	776
Sparkasse Nekretnine d.o.o Sarajevo, BiH	-	91	-	105
	28,635	**6,179**	**27,745**	**3,922**

	2015		2014	
Group and Bank	Income	Expenses	Income	Expenses
S Leasing d.o.o Sarajevo, BiH	110	22	135	99
Erste and Steiermarkische bank d.d Zagreb, Croatia	65	-	52	-
Erste Bank der Oesterreichischen Sparkassen AG Vienna, Austria	59	7	43	-
Sparkasse Nekretnine d.o.o Sarajevo, BiH	6	4	7	-
S Premium d.o.o Sarajevo, BiH	6	4	6	4
Sparkasse Bank a.d. Skopje, Macedonia	7	-	2	-
Erste Group Card Processor d.o.o. (vm.MBU)	-	856	-	749
S IT Solutions AT Spardat GmBH Vienna, Austria	-	453	-	262
S IT Solutions HR d.o.o Bjelovar, Croatia	-	55	-	42
S IT Solutions CZ s.r.o Prague, Čzech Republic	-	9	-	10
	253	**1,410**	**245**	**1,166**

Management remunerations

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

Group and the Bank	2015	2014
Gross salaries	816	816
Other benefits	32	298
Fees to Supervisory Board members	29	27
	877	**1,141**

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

33. COMMISIONARY BUSINESS

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 2015	31 December 2014
Loans		
Corporate	18,574	19,412
Individuals	3,205	3,368
	21,779	**22,780**
Financing sources		
Employment agency of Federation of Bosnia and Herzegovina	17,256	17,450
Intesa Sanpaolo Banka	2,112	2,780
Ministry of war military invalids of Zenica –Doboj Canton	876	975
Bosnian-Podrinje Canton Government	799	804
International guarantee agency – IGA	326	326
Zenica- Doboj Canton Government	150	167
Employment agency of Zenica-doboj Canton	140	156
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	3
	21,779	**22,780**
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 2015	31 December 2014
Debt	1,011,366	896,953
Equity	138,411	124,430
Debt to capital ratio	**7.31**	**7.21**

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 liabilities for loans taken 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) maintain 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.

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

34. FINANCIAL INSTRUMENTS (CONTINUED)

a) Capital risk management (continued)

As of 31 December 2015 and 2014 the Bank complied with all of the externally imposed capital requirements to which it was subject. As of 31 December 2015 the adequacy of the Bank's capital amounts to 13.0% (2014: 13,1%).

	31 December 2015	31 December 2014
Tier 1 capital		
Ordinary shares	86,473	86,473
Share premium	3,000	3,000
Statutory reserves	28,762	23,402
Retained earnings	5,360	-
Own (treasury) shares	(21)	-
Deferred tax assets	(314)	-
Negative revaluation reserve	(433)	(57)
Less: Intangible assets	(3,314)	(2,313)
Total tier 1 capital	**119,513**	**110,505**
Tier 2 capital		
General provision - FBA regulations	15,731	17,620
Positive Revaluation reserves	11	101
Total tier 2 capital	**15,742**	**17,721**
Impairment of capital		
Shortfall in regulatory reserves	(9,125)	(9,127)
Net capital	**126,130**	**119,099**
Risk Weighted Assets (unaudited)	900,432	842,818
Weighted Operational Risk (unaudited)	67,606	63,133
Total weighted risk	**968,038**	**905,951**
Capital adequacy (%)	**13.0**	**13.1**

* 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 2015	Group 31 December 2014	Bank 31 December 2015	Bank 31 December 2014
Financial assets				
Loans and receivables:				
Cash and cash equivalents (including Obligatory reserve with the CBBH)	*255,836*	*203,640*	*255,836*	*203,640*
Placements with other banks	*1,902*	*395*	*1,902*	*395*
Loans and advances to customers, net	*794,894*	*758,186*	*794,894*	*758,186*
Other financial assets	*10,238*	*3,033*	*10,238*	*3,033*
Financial assets available-for-sale	59,314	30,586	58,366	30,096
	1,122,184	**995,840**	**1,121,236**	**995,350**
Financial liabilities				
At amortised cost				
Due to other banks	*202,870*	*228,783*	*202,870*	*228,783*
Due to customers	*771,478*	*639,306*	*771,478*	*639,306*
Due for loans taken	*37,018*	*28,864*	*37,018*	*28,864*
Other financial liabilities	*7,269*	*5,155*	*7,269*	*5,155*
	1,018,635	**902,108**	**1,018,635**	**902,108**

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:

Bank	KM	EUR	USD	Other currencies	Total
ASSETS					
Cash and cash equivalents	49,584	99,187	11,419	4,516	164,706
Obligatory reserve with the CBBH	91,130	-	-	-	91,130
Placements with other banks	-	19	826	1,057	1,902
Loans and advances to customers, net	384,809	410,085	-	-	794,894
Financial assets available-for-sale	37,727	20,639	-	-	58,366
Other financial assets	1,342	1,744	877	6,275	10,238
	564,592	**531,674**	**13,122**	**11,848**	**1,121,236**
LIABILITIES					
Due to other banks	18,256	180,535	-	4,079	202,870
Due to clients	465,413	285,083	13,256	7,726	771,478
Due for loans taken	87	36,931	-	-	37,018
Other financial liabilities	5,238	2,026	1	4	7,269
	488,994	**504,575**	**13,257**	**11,809**	**1,018,635**
Discrepancy as at 31 December 2015	**75,598**	**27,099**	**(135)**	**39**	**102,601**
Total monetary assets	**454,806**	**523,804**	**8,994**	**7,746**	**995,350**
Total monetary liabilities	**418,221**	**467,222**	**9,030**	**7,635**	**902,108**
Discrepancy as at 31 December 2014	**36,585**	**56,582**	**(36)**	**111**	**93,242**

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 2015	31 December 2014
Profit/ (loss)	(13)	(6)

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 2015 would increase / decrease by KM 2,077 thousand (2014: by KM 2,421 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 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, net	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**
As at 31 December 2014						
Cash and accounts in banks	140,581	140,581	-	-	(103)	140,478
Obligatory reserve with the CBBH	63,162	63,162	-	-	-	63,162
Placements with other banks	403	403	-	-	(8)	395
Loans to customers, net	834,416	756,227	78,189	(43,714)	(32,516)	758,186
Financial assets available-for-sale	30,322	30,322	-	-	(226)	30,096
Other financial assets	5,285	3,084	2,201	-	(2,252)	3,033
	1,074,169	**993,779**	**80,390**	**(43,714)**	**(35,105)**	**995,350**

Credit exposure and collateral

Bank	Credit risk exposure		
	Net exposure	Unwithdrawn loans / Guarantees	Value of collateral
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, net	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**
As at 31 December 2014			
Cash and cash equivalents	140,478	-	-
Obligatory reserve with the CBBH	63,162	-	-
Placements with other banks	395	-	-
Loans to customers, net	758,186	134,237	348,395
Financial assets available-for-sale	30,096	-	-
Other financial assets	3,033	-	-
	995,350	**134,237**	**348,395**

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

34. FINANCIAL INSTRUMENTS (CONTINUED)

h) Credit risk management (continued)

Credit exposure and collateral

Value of the collateral

Bank	31 December 2015	31 December 2014
Real estate	341,500	318,871
Movable property	6,332	5,200
Deposits	21,272	17,953
Other	9,519	6,371
	378,623	**348,395**

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 2015							
Corporate	496,159	420,527	17,280	6,951	1,437	931	49,033
Individuals	384,122	341,893	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**
31 December 2014							
Corporate	474,638	395,156	21,935	6,788	5,011	2,690	43,058
Individuals	359,778	322,247	16,217	4,464	2,684	1,974	12,192
Subtotal	834,416	717,403	38,152	11,252	7,695	4,664	55,250
Impairment losses	(76,230)	(18,165)	(1,448)	(2,241)	(3,829)	(2,650)	(47,897)
Total	**758,186**	**699,238**	**36,704**	**9,011**	**3,866**	**2,014**	**7,353**

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	2 to 5 years	Over 5 years	Total
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**
31 December 2014							
Non-interest bearing	-	3,224	94	1,460	148	-	4,926
Variable interest rate instruments	3.89%	108,481	13,795	48,233	153,492	53,557	377,558
Fixed interest rate instruments	7.55%	65,028	57,449	215,513	252,430	220,231	810,651
		176,733	**71,338**	**265,206**	**406,070**	**273,788**	**1,193,135**

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	2 to 5 years	Over 5 years	Total
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**
31 December 2014							
Non-interest bearing	-	245,178	138	3,417	2,616	2,992	254,341
Variable interest rate instruments	1.02%	-	-	-	241,866	706	242,572
Fixed interest rate instruments	3.11%	46,668	30,606	139,070	191,449	20,109	427,902
		291,846	**30,744**	**142,487**	**435,931**	**23,807**	**924,815**

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 31 December 2015	Fair value as at 31 December 2014	Fair value hierarchy	Valuation technique(s) and key input(s)
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 on stock exchanges in other countries: • Belgium - KM 64 thousand 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 38,932 thousand (B+) • RS Ministry of Finance – KM 5,596 thousand (B+) • Cazin Municipality – KM 173 thousand • Hadžići Municipality – KM 301 thousand	Listed equity securities in stock exchange in Bosnia and Herzegovina: • BamCard d.d Sarajevo – KM 115 thousand Listed equity securities on stock exchanges in other countries: • Belgium - KM 24 thousand Listed debt securities in stock exchange in other countries: • Croatia – KM 9,793 thousand (Baa3/BBB) Listed debt securities in stock exchange in Bosnia and Herzegovina: • FBiH Ministry of Finance – KM 14,291 thousand (B+) • RS Ministry of Finance – KM 4,703 thousand (B+) • Cazin Municipality – KM 252 thousand • Hadžići Municipality – KM 400 thousand	Level 1	Quoted bid prices in an active market.

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

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 2015		31 December 2014	
Group and Bank	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and receivables:				
- loans to customers	794,894	791,328	758,186	757,699
Financial liabilities				
Financial liabilities held at amortised cost:				
- due to banks and customers	974,349	972,349	868,089	870,060

Group and Bank	Fair value hierarchy as at 31 December 2015			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and receivables:				
- loans to customers	-	-	791,328	791,328
	-	**-**	**791,328**	**791,328**
Financial liabilities				
Financial liabilities held at amortised cost:				
- due to banks and customers	-	-	972,349	972,349
	-	**-**	**972,349**	**972,349**

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 21 April 2016.

Sanel Kusturica
Director

Sparkasse Bank dd Bosna i Hercegovina
SPARKASSE BANK
100

Amir Softić
Executive director

Reliability Reliability

Credibility

Devotion

Devotion

Reliability

Credibility

Credibility Devotion

Reliability

Reliability Reliability

Credibility

Devotion

Reliability

Credibility