Bosna Bank International

ANNUAL REPORT **2016**

BBI, SOCIALLY RESPONSIBLE BANK

BEST WORLD PRACTICES FOR BOSNIA AND HERZEGOVINA

Sarajevo Business Forum is the most significant socially responsible engagement of Bosna Bank International (BBI). It has been successfully organized since 2010 in cooperation with the Islamic Development Bank Group (IDB) and with the support of the other two BBI shareholders Dubai Islamic Bank and Abu Dhabi Islamic Bank.

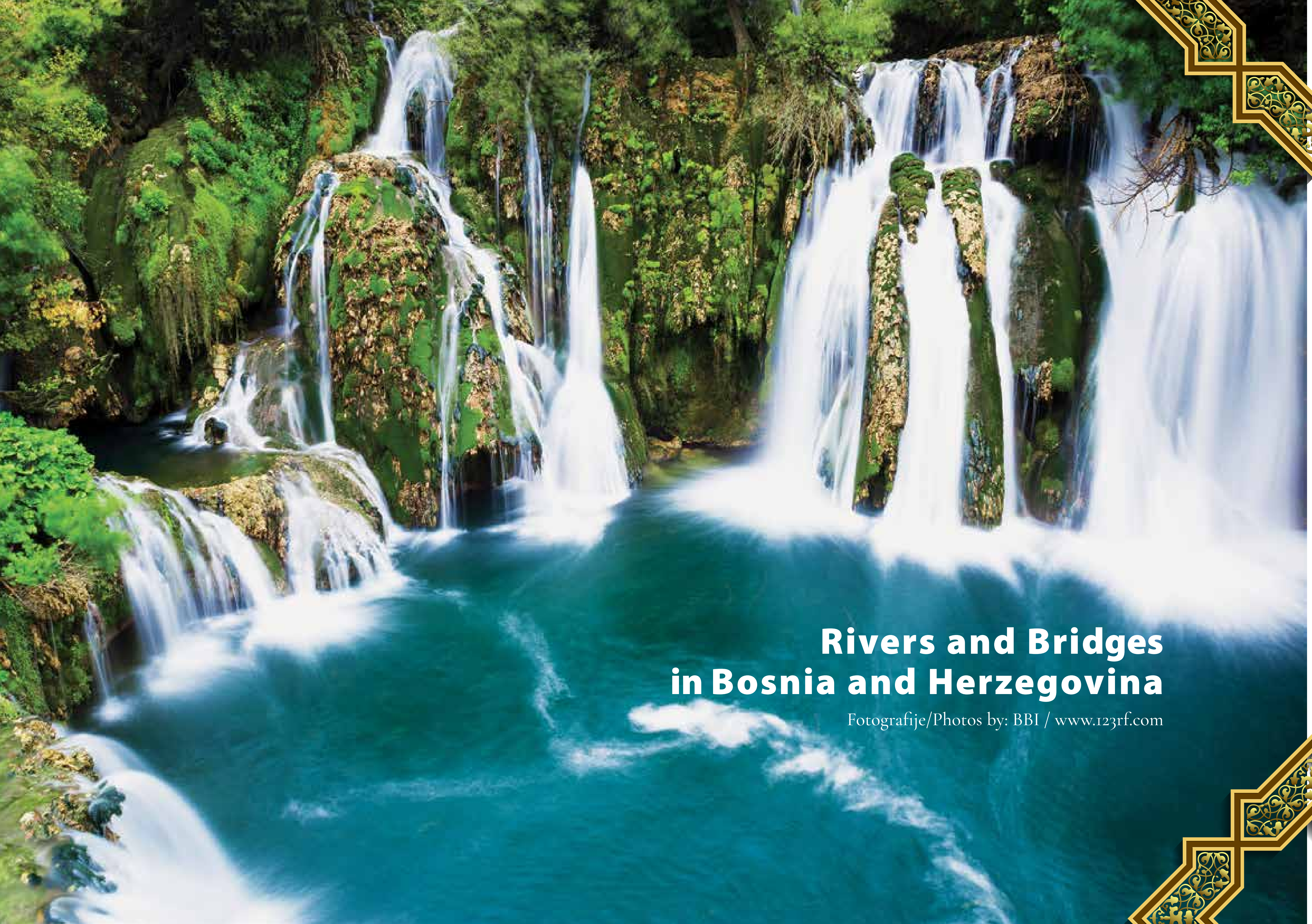
The 7th International Investment Conference - Sarajevo Business Forum 2016 (SBF 2016) was held on the 4th and 5th of May 2016 in Sarajevo, Bosnia and Herzegovina under the patronage of the Presidency of Bosnia and Herzegovina. SBF 2016 attracted 1.600 participants, including 350 accredited journalists, from more than 30 countries. Participants had the opportunity to network, establish business relationships through more than 250 B2B meetings. SBF 2016 also hosted the 16+1 Summit (Central and South-East Europe plus China) in cooperation with the Council of Ministers of B&H and the Embassy of the People's Republic of China. The 16+1 Summit serves as a platform for perspective projects which will promote connectivity in Europe, focusing on investments which will contribute to economic development.

"For the 7th consecutive year, BBI is enhancing investment environment of the region via SBF, and this is the reflection of our social responsibility towards the local community as well as towards wider community of the Southeastern Europe. Aiming to represent this region as one of the most dynamic parts of Europe in terms of investments, we are proud to see that BBI has become the biggest catalyst of investments and the strongest economy booster in this region. We have been promoting the whole region as one, unique market and regional business people had the opportunity to meet leading business people from investment funds and to present their resources and development opportunities through direct conversations. This region is attractive to foreign investors both because of qualified work-force combined with competitive cost-structure" said Amer Bukvić, CEO of BBI Bank, in the welcome note at SBF 2016.

BBI has continued implementing other CRS activities in 2016, through various aid projects from its own Charity Fund as the way of giving back to society and supporting needy communities, in Bosnia and Herzegovina. Furthermore, the project for reconstruction of the child surgery department of the County Hospital in the municipality of Bihac, has been successfully implemented in November 2016. Namely, the County Hospital in the municipality of Bihac was almost entirely destroyed in a fire. It was a true national tragedy. The project was implemented by BBI in cooperation with Islamic Community of Bosnia and Herzegovina and BBI Real Estate, with the funding support of IDB.

With many years of experience in facilitating scholarship programs, BBI is locally recognized as a respectable and significant scholarship provider. Starting in 2010, Bosna Bank International along with philanthropist Sheikh Saleh Abdullah Kamel established the "Sheikh Saleh Kamel Fund". Each year the fund grants a scholarship of 100 USD per month to the 500 most underprivileged Bosnian and Herzegovinian youth. BBI also provides annual scholarships to students attending the Master's program in Islamic Banking offered in Sarajevo, by the University of Sarajevo and the University of Bolton together with the BBI Academy. In 2016, BBI initiated reactivation of IDB Scholarship Program (SPMC) in Bosnia and Herzegovina. The scholarships are intended for needy students to pursue their education and training in various spheres and at all levels of education after their elementary stage. IDB implements its Scholarship Program in partnership with counterpart organizations in 65 countries around the world. During more than three decades of implementation of the IDB Scholarship Program more than 9,000 graduates were produced worldwide. BBI is proud to be the counterpart organization for Bosnia and Herzegovina.

BBI will continue to be a socially responsible bank in the years to come, striving towards creating a knowledge-based society characterized by meritocracy, a democratic spirit, a culture of entrepreneurship, openness, and altruism, ultimately committing itself to always consider the welfare of society as a whole.


Rivers and Bridges
in Bosnia and Herzegovina
Fotografije/Photos by: BBI / www.123rf.com

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STATEMENT BY THE CHAIRMAN OF THE GENERAL ASSEMBLY OF BOSNA BANK INTERNATIONAL

Chairman of the
General Assembly of BBI

I am honored to present the Bosna Bank International (BBI) annual report for 2016 to all stakeholders in Bosnia and Herzegovina and worldwide.

We are delighted that, besides its strive for Shari'ah compliance, continuous expansion and growth in all business divisions, BBI has succeeded to build several unique features which helped to create one of the strongest brands in the finance industry of Bosnia and Herzegovina. BBI continues to strengthen its market position acquiring new clients and opening branch offices across the country. It is our deep conviction that the Bank has achieved substantial progress in recent years as a result of its adherence to the equitable principles of Islamic finance, support from its shareholders and dedication from its loyal and professional staff. The result of this approach is not only the continued growth and great business results of the Bank, but also a number of socially responsible projects initiated by the BBI, which have now virtually outgrown the level of one bank.

I am inspired by BBI's corporate social responsibility (CSR) efforts, which continued in 2016 by serving communities and providing education opportunities through the scholarship scheme. Contributing to higher education will no doubt continue to be one of BBI's priorities moving forward. BBI's efforts to promote and attract new foreign direct investments through Sarajevo Business Forum are praiseworthy. The Sarajevo Business Forum, which represents a great example of successful public-private partnership, continues to be an excellent platform for business networking and the promotion of investment opportunities in the Southeast European region.

Since the beginning of its operations in 2000, BBI has been providing support to the economy of Bosnia and Herzegovina, expanding its network across the country and proving that Islamic banking principles are ethical, universal and aimed at serving the common good of humanity. Having in mind outstanding capacity building projects through BBI Academy and Islamic banking master studies in partnership with local and international universities, there is no doubt that the Bank will continue to exert utmost efforts towards realizing its overall vision of fostering economic development and social progress in Bosnia and Herzegovina in accordance with Islamic banking principles.

BBI shareholders want to congratulate to the management and staff of the Bank for the impressive results they have attained this year, as well as to Bosnia and Herzegovina's authorities and public for their generous support. BBI shareholders are committed to supporting the Bank with the aim of contributing to the socio-economic development of Bosnia and Herzegovina. We hope that, with the help of Allah the Almighty and with the support of all shareholders, BBI will further increase its potential and remain the Islamic banking industry hub of Southeast Europe.

Mohamed Hedi Mejai

STATEMENT BY THE CHAIRMAN OF THE SUPERVISORY BOARD OF THE BANK

Chairman of the
Supervisory Board of BBI

On behalf of the Supervisory Board of Bosna Bank International (BBI), I am pleased to present BBI's financial results and business achievements for this fiscal year, in the Annual Report for 2016.

The Supervisory Board is very satisfied with the results achieved by BBI over the past several years, and we are delighted to see that growth of BBI in all segments of business operations was continued in 2016. These achievements are proof of BBI's highly differentiated approach to the market. The numerous initiatives undertaken, which continue to thrive, have sustained the Bank's recognizable and distinct image both in Bosnia and Herzegovina and the Southeast European Region. BBI's approach to corporate social responsibility has gained increasing recognition, not only in Bosnia and Herzegovina but also internationally, leaving a strong impact on the local and regional markets.

Despite slowed economic environment in the country and region, BBI has once again proved its ability to sustain its growth in a highly competitive environment. While poor economic conditions contribute to the creation of significant barriers, particularly influencing the creation of new business opportunities, BBI has supported promising projects and continued creating long-term value for its clients, partners and shareholders.

Compared to the previous year, BBI has recorded significant growth in all of its business lines. Total assets grew by 15.9% supported by a 14.3% growth in financing. The most important driver of the financings growth was the retail sector financings which grew by 19.7%. Total revenues increased by 23.6%. With additional 30 million BAM capital increase during 2016, the Bank's capital adequacy ratio is among the highest on the market and it is significantly higher than the legally prescribed one.

As far as the banking sector in Bosnia and Herzegovina is concerned, during 2016 there have been positive trends which are reflected in the increase of total assets, financings and deposits, especially household savings, as well as improved profitability of entire banking sector. Overall, it can be concluded that the banking sector remains stable and adequately capitalized, with liquidity remaining at satisfactory levels.

The Supervisory Board and management team at BBI work very well together, in full respect of their assigned mandates, which is reflected in the Bank's excellent performance. As we move forward, the Board will continue to focus on maintaining high standards of corporate governance and constructive engagement with management. We believe that BBI will continue its strong growth and market outperformance in the future as well.

On behalf of the Supervisory Board, I would like to express my appreciation to BBI's shareholders, Board Members, the Management of the Bank and its employees for the extraordinary efforts put into making BBI a success. We acknowledge their contribution and thank them for their commitment to our success. Last but not least, we would like to thank our clients and partners for their continued loyalty and generous support.

Abdulaziz Ahmed Al Mheiri

STATEMENT BY CEO OF THE BANK

On behalf of BBI management team, it is my honor to extend deepest respect and gratitude to all our respected clients, business partners and associates for staying loyal and committed partners of BBI in 2016. We are grateful for the pleasure of serving you and meeting your banking needs. With your support and loyalty, BBI joined segment of mid-sized banks in Bosnia and Herzegovina during 2016 and also achieved best business results since its foundation.

The B&H banking market remains highly competitive with 24 banks. However, thanks to the outstanding commitment of BBI management team and employees across all divisions, BBI continued growth and increased market share in all of its business segments. At the end of 2016, BBI Bank operates with 31 branches all over the country and we shall continue the expansion of this network in the future.

Respected clients, business partners and associates, it is therefore my great pleasure to briefly present the results of BBI for 2016 compared to the previous year (2015):

- Growth of total assets by 15.9%
- Growth of total financings by 14.3%, with retail financings growth of 19.7% and corporate financings growth of 11.1%
- Increase of total deposits by 16.1%
- Increase of total revenues by 23.6%
- Increase of net profit by 13.7%
- Increase in number of retail clients by 23.2%
- Increase in number of corporate clients by 26.1%

BBI has continued its engagement in numerous Corporate Social Responsibility (CSR) activities. With the support of Sheikh Saleh Kamel Foundation BBI has continued with the scholarship program in 2016 and managed Foundations project of supporting more than 500 orphan students from Bosnia and Herzegovina.

BBI continues its various activities aiming to support the economy of Bosnia and Herzegovina, contributing to its socio-economic development. Therefore, BBI continued its efforts in attracting foreign direct investment. Apart from regular networking activities of VIP Business Club, in 2016 BBI organized the 7th Sarajevo Business Forum (SBF) – Prospective China + 16 CEEC. The conference brought together 1600 participants including 350 accredited journalists and 750 foreign guests and hosted 250 B2B meetings and once again confirmed its position as "Balkan's Davos." The investment inflow in the country has continued in 2016 as well.

BBI Academy continued with providing its high quality training and education program. BBI Academy programs are implemented by BBI's internal experts. However, for some specific topics, BBI Academy engages guest lecturers, mainly distinguished university professors and experts from other institutions. In 2016, BBI started to collaborate with other important institutions world-wide, aiming to facilitate the mutual exchange of know-how and experience. BBI initiated partnership with Istanbul Stock Exchange (Borsa Istanbul) and Kuveyt Türk Bank, and has launched a comprehensive training program for employees of BBI. As a result, 50 employees of BBI will pass through this valuable training course in partner institutions.

The first Islamic stock market index in the region was launched in October of 2016. The index is a product of the collaboration between the Sarajevo Stock Exchange and BBI Bank. BBI made publicly available a list of all companies on SASE which are in compliance with Islamic finance principles for the benefit of our economy, and will continue to update the list in future.

Finally, I would like to thank our shareholders for their continued support and decision to increase capital of BBI for additional 30 million BAM. This opens up space for continuation of strong growth of BBI financings to both retail as well as corporate clients. A special thanks to the Board Members for skillfully steering the Bank through the year, and the management of the Bank together with the staff for their motivation, professionalism and contribution to the results achieved. With God's help, we look forward to another successful year for BBI in 2017.

Amer Bukvić

CEO of the Bank

BBI MANAGEMENT

MISSION:

To make Islamic banking principles more comprehensible, to promote Islamic banking products in B&H and to become the leading bank in the Region in providing support and facilitating business cooperation between BH businessmen and the OIC member countries.

Amer Bukvić
CEO of the Bank

Emina Šišić
Executive Director

Emir Čehajić
Executive Director

Mirza Spahić
Director of Legal Division

Vildana Škaljić
Director of Financial Division

Amel Kovačević
Director of Retail Banking Division

Semir Ibrahimović
Director of IT Division

Salih Purišević
Secretary General of the Bank

Edin Brkić
Director of Corporate Banking Division

Muhiba Muratović
Director of Operations Division

Mirsada Čengić
Director of Treasury and FI Division

Samir Suljević
Director of HR and Administration Division

Nusreta Pidro
Director of Credit and Market Risk Management Division

Enver Redžović
Chief Internal Auditor

REPORT OF THE MANAGEMENT BOARD

The Management Board has pleasure in submitting its report together with the audited financial statements for the year ended 31 December 2016.

Review of operations

The results for the year ending December 31, 2016 are set out in the Bank's income statement on page 16.

Supervisory Board, Audit Board, Sharia'h Board and Management Board

During the course of 2016 and up to the date of this report, the Supervisory Board comprised:

Supervisory board:

President	Abdulaziz Ahmed Al Mheiri
Vice President	Abdulla Al Shahi
Member	Jahanzeb Burana
Member	Sharol A Razar
Member	Kamil Gokhan Bozkurt

Audit committee:

President	Harun Kapetanović
Vice President	Abdul Hakim Kanan
Member	Abdallah Saleh Abu Khajil
Member	Mehmet Kamil Tumer
Member	Safet Proho

Sharia'h Board:

President	Prof. Dr. Mustafa Cerić until 23.05.2016
President	Dr.Husein ef. Kavazović since 23.05.2016
Vice President	Dr. Abdulsattar Boughoudah until 23.05.2016
Vice President	Dr. Nizam Al-Yaqoobi since 23.05.2016, a member until this date23.05.2016
Member	Dr. Osaid Kailani since 23.05.2016
Member	Dr. Šukrija Ramić
Member	Saleh Michael Gassner

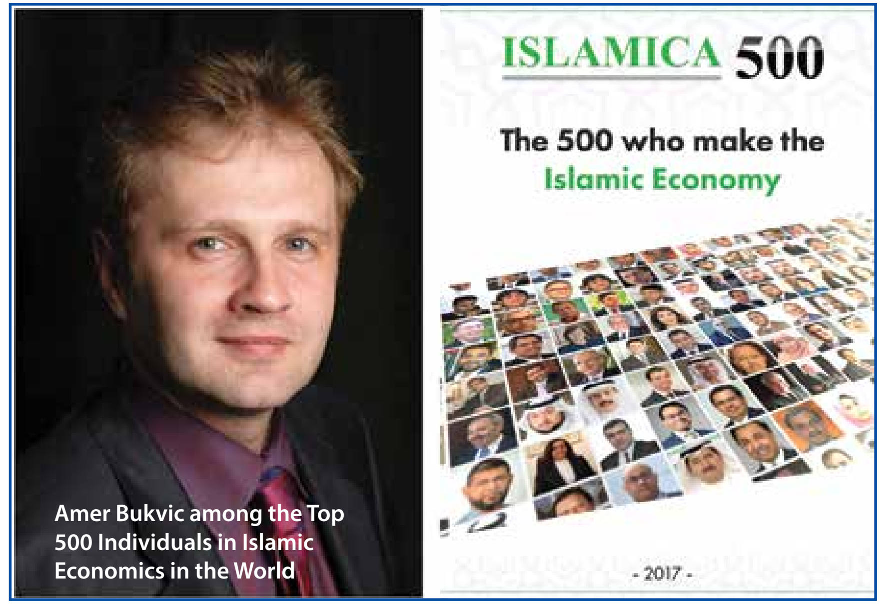
Management Board:

As of December 31, 2016 the Management Board comprised of the CEO of the Bank and 2 executive directors.

On behalf of the Management Board

Amer Bukvić
CEO of the Bank

RESPONSIBILITY OF THE MANAGEMENT AND SUPERVISORY BOARD FOR THE PREPARATION AND APPROVAL OF ANNUAL FINANCIAL STATEMENTS



The Management Board is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Bank and of the results of its operations and cash flows, in accordance with statutory requirements for banks in the Federation of Bosnia and Herzegovina, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility towards taking such steps as are reasonably available to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; making judgements and estimates that are reasonable and prudent; and preparing the financial statements on a regular basis.

The Management Board is responsible for the submission of the Bank's annual report to the Supervisory Board along with the annual financial statements. Subsequently, the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly for adoption. The financial statements for the year ending December 31, 2016 were signed by the Management Board on February 28, 2017 and submitted to the Supervisory Board and General Assembly for approval and adoption.

Signed on behalf of the Management Board:

Amer Bukvić
CEO of the Bank

Emina Šišić
Executive Director

Bosna Bank International d.d.
Trg djece Sarajeva bb
71000 Sarajevo

River Una

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of Bosna Bank International d.d.

We have audited the accompanying financial statements of Bosna Bank International d.d. ("the Bank") which comprise the statement of financial position as of 31 December 2016 and the statements of comprehensive income, changes in equity and 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 of financial statements that give true and fair view in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

PricewaterhouseCoopers d.o.o. Sarajevo

Anesa Ustavdić, Certified auditor

Sarajevo, 12 March 2017

„PRICEWATERHOUSECOOPERS D.O.O." SARAJEVO

FINANCIAL HIGHLIGHTS

BAM 133.115
(thousand) Total Capital

80.74%
Customer Financing to Deposit Ratio

6,358
(thousand) Net profit

Net Profit for 2016 increased by 13% to BAM 6,358 thousand

36,137
(thousand) total Revenues

Total Revenues for 2016 increased by 24% to BAM 36,137 thousand

Summary Income Statement

in BAM '000

DESCRIPTION	2016	2015	2014	2013	2012	2011	2010	2009
Net revenue from funding	25,049	20,609	16,616	13,214	12,545	10,322	9,279	8,600
Other operating income	11,088	8,565	6,674	6,330	5,589	4,805	9,394	3,989
Total Revenues	**36,137**	**29,174**	**23,290**	**19,544**	**18,134**	**15,127**	**18,673**	**12,589**
Operating Profit	14,913	10,004	6,300	4,266	4,525	2,682	5,438	2,364
Credit Provisions and Impairment Charge	7,802	3,751	1,767	955	1,602	367	5,014	1,936
Profit before tax	7,111	6,253	4,533	3,311	2,923	2,315	424	428
Income tax	753	644	519	339	299	236	7	-32
Profit after tax	**6,358**	**5,609**	**4,014**	**2,972**	**2,624**	**2,079**	**417**	**460**

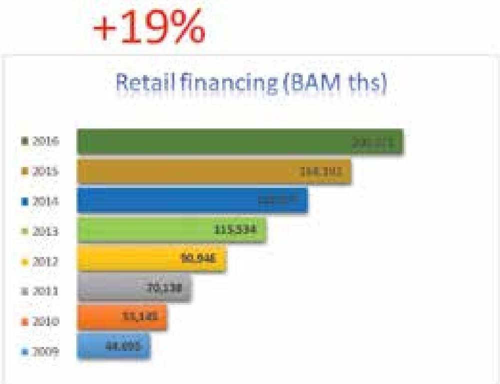
Summary Balance Sheet

in BAM '000

DESCRIPTION	2016	2015	2014	2013	2012	2011	2010	2009
Total Assets	815,215	705,483	636,432	561,796	427,552	337,121	308,747	245,583
Customer Financing	514,628	454,030	378,674	334,037	267,837	201,508	174,622	143,829
Customer Deposits	502,620	428,656	390,624	357,690	281,413	231,733	223,700	160,697

Financial Ratios

DESCRIPTION	2016	2015	2014	2013	2012	2011	2010	2009
Customer Financing to Deposit Ratio	80.7%	79.2%	73.6%	73.8%	75.7%	75.3%	71.0%	76.2%
Capital Adequacy Ratio (CAR,%)-Basel II	18.50%	14.20%	14.80%	19.30%	15.20%	19.70%	22.30%	25.40%
Cost/Income ratio	58.73%	65.71%	72.95%	78.17%	75.05%	82.27%	70.88%	81.22%



Current rating B&H	Moody´s Investors Service	Standard & Poor´s
Rating	B3/stable outlook	B/stable outlook
Date	26.02.2016.	09.09.2016.
Activity	Rating affirmed	Rating affirmed

The shareholders of the Bank	Standard & Poor's	Fitch Ratings	Moody's
Islamic Development Bank, Saudi Arabia	AAA/Stable/A-1+	AAA/Stable	Aaa/Stable
Abu Dhabi Islamic Bank, United Arab Emirates		A+ / Stable/	A2 / Stable/
Dubai Islamic Bank, United Arab Emirates		A /Stable/	Baa1 / Stable/

STATEMENT OF COMPREHENSIVE INCOME

(All amounts are given in BAM '000, unless otherwise stated)

	Note	2016	2015
Income from operations with banks (Murabaha, Wakala) and from financing retail and corporate sector (Musharaka and Ijara)	5	30,602	28,212
Expenses in respect of amounts due to customers and to banks (Wakala)	5	(5,553)	(7,603)
Net income from financing and investments		**25,049**	**20,609**
Net impairment losses and provisions	10	(7,802)	(3,751)
Net income from profit margin after provision expenses		**17,247**	**16,858**
Fee and commission income	6	9,803	8,840
Fee and commission expense	6	(2,013)	(1,942)
Net financial gains	7	812	693
Other operating income	11	2,486	974
Personnel expenses	8	(11,792)	(10,776)
Depreciation expenses	20, 21	(1,532)	(1,338)
Other operating expenses	9	(7,900)	(7,056)
Profit before income taxes		**7,111**	**6,253**
Income tax expense	12	(753)	(644)
Net profit for the year		**6,358**	**5,609**
Other comprehensive income		-	-
Total comprehensive income		**6,358**	**5,609**
Earnings per share	13	4.87	5.91

Notes on pages 24 to 98 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

(All amounts are given in BAM '000, unless otherwise stated)

	Note	31 December 2016	31 December 2015
ASSETS			
Cash and balances with banks	14	172,925	149,985
Obligatory reserve with the Central Bank	15	60,373	33,680
Placements with banks	16	38,985	42,479
Financial assets available for sale	17	29	49
Financial assets at fair value through profit or loss	18	497	557
Financing of customers	19	514,628	454,030
Other assets	20	6,990	4,508
Property and equipment	21	19,990	19,259
Intangible assets	22	798	936
TOTAL ASSETS		**815,215**	**705,483**
LIABILITIES			
Due to customers	23	502,620	428,656
Due to other banks	24	52,814	52,619
Borrowings	25	113,268	115,811
Other liabilities	26	12,401	10,529
Provisions for liabilities and expenses	27	997	1,111
TOTAL LIABILITIES		**682,100**	**608,726**

Notes on pages 24 to 98 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

(All amounts are given in BAM '000, unless otherwise stated)

SHAREHOLDERS' EQUITY			
Share capital	28	110,059	80,059
Statutory reserves		4,257	3,136
Retained earnings		18,799	13,562
TOTAL EQUITY		**133,115**	**96,757**
TOTAL EQUITY AND LIABILITIES		**815,215**	**705,483**

Management Board of the Bank has approved these financial statements on 28 February 2017, and they are hereby signed by:

CEO of the Bank
Amer Bukvić

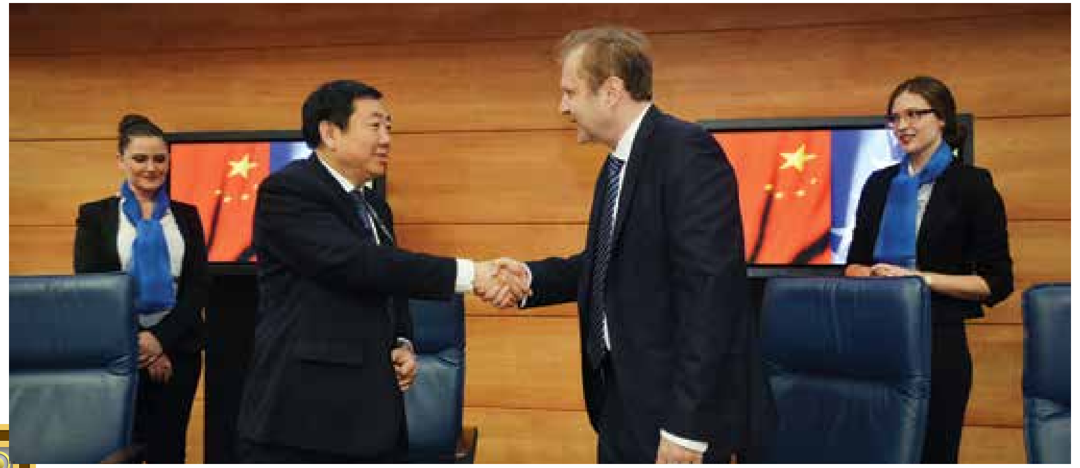
Executive Director
Emina Šišić

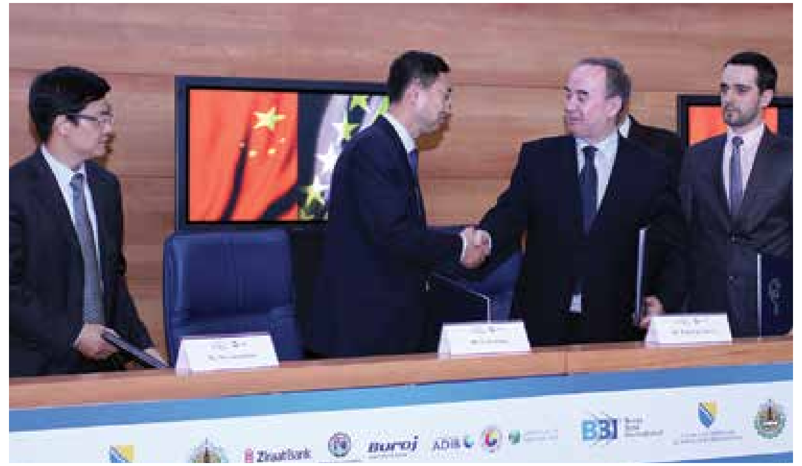
Notes on pages 24 to 98 are integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

(All amounts are given in BAM '000, unless otherwise stated)

	Share capital	Statutory reserves	Retained earnings	Total
Balance as at 01 January 2015	**80,059**	**2,333**	**8,756**	**91,148**
Allocation of the profit from 2014	-	803	(803)	-
Profit for the year	-	-	5,609	5,609
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	*5,609*	*5,609*
Balance as at 31 December 2015	**80,059**	**3,136**	**13,562**	**96,757**
Allocation of the profit from 2015	-	1,121	(1,121)	-
Capital increase	30,000			30,000
Profit for the year	-	-	6,358	6,358
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	*6,358*	*6,358*
Balance as at 31 December 2016	**110,059**	**4,257**	**18,799**	**133,115**





Notes on pages 24 to 98 are integral part of these financial statements.

CASH FLOW STATEMENT

(All amounts are given in BAM '000, unless otherwise stated)

	Note	2016	2015
Cash flow from operating activities			
Profit before income tax		7,111	6,253
Adjusted for:			
Depreciation and amortization	21, 22	1,531	1,338
Loss on disposal of property and equipment		7	19
Net impairment losses and provisions		7,802	3,751
Fair value adjustment loss / (gain) of financial assets at fair value through statement of profit and loss		89	39
Income from dividends recognized through statement of comprehensive income		(19)	(19)
Cash flow from operating activities before changes in operating assets and liabilities		**16,521**	**11,381**
(Increase) in obligatory reserve with the Central Bank		(26,698)	(546)
Decrease in placements with banks		3,496	19,496
(Increase) in financing of customers		(68,347)	(78,750)
(Increase) in other assets		(4,088)	(2,898)
Increase / (decrease) in amounts due to banks		195	23,278
Increase in amounts due to customers		73,964	38,032
Increase in other liabilities		1,872	1,573
		(3,085)	*11,566*
Income tax paid		689	339

Notes on pages 24 to 98 are integral part of these financial statements.

Stone Bridge, Trebinje

CASH FLOW STATEMENT

(All amounts are given in BAM '000, unless otherwise stated)

NET CASH FROM / (USED IN) OPERATING ACTIVITIES		**(2,396)**	**11,905**
Investing activities			
Disposal of financial assets at fair value through profit and loss		(29)	-
Disposal of financial assets available for sale		20	-
Purchase of property and equipment and intangibles		(2,131)	(6,710)
Dividends received		19	19
NET CASH USED IN INVESTING ACTIVITIES		**(2,121)**	**(6,691)**
Financing activities			
Capital increase		30,000	
Increases in borrowings		1,043	7,281
Repayment of borrowings		(3,586)	(7,040)
NET CASH FROM FINANCING ACTIVITIES		**27,457**	**241**
Net increase/ (decrease) in cash and cash equivalents		**22,940**	**5,455**
Cash and cash equivalents at the beginning of the year		**149,985**	**144,530**
Cash and cash equivalents at the end of the year	14	**172,925**	**149,985**

Notes on pages 24 to 98 are integral part of these financial statements.

The Mehmed-Paša Sokolović Bridge in Višegrad

(All amounts are given in BAM '000, unless otherwise stated)

1. GENERAL INFORMATION

Bosna Bank International d.d. (BBI Bank) was registered on 19 October 2000 as the first bank in Bosnia and Herzegovina which operates according to the principles of Islamic banking.

On the 13 March 2002, the Bank obtained a license for domestic payment transactions from the Banking Agency of the Federation of Bosnia and Herzegovina, and in November the same year the Bank obtained a license for insurance of deposits.

The Bank made its first transaction in the beginning of 2001.

The main activities of the Bank include providing the following banking services:

1. financing legal entities and physical persons,
2. receiving and placing of deposits,
3. activities in inter-bank market,
4. buying and selling of foreign currencies
5. other banking services.

The shareholders of the Bank are:

	31 December 2016		31 December 2015	
	Amount	%	Amount	%
Islamic Development Bank, Saudi Arabia	50,031	45.46	36,393	45.46
Abu Dhabi Islamic Bank, United Arab Emirates	30,014	27.27	21,833	27.27
Dubai Islamic Bank, United Arab Emirates	30,014	27.27	21,833	27.27
Total	**110,059**	**100.00**	**80,059**	**100.00**

The address of its registered office is Trg djece Sarajeva bb, 71000 Sarajevo, Bosnia and Herzegovina.

Employees

As of 31 December 2016 the Bank employed 371 persons (2015: 341 employees).

1. GENERAL INFORMATION (continued)

Supervisory board	
Chairman	Abdulaziz Ahmed Al Mheiri
Vice Chairman	Abdulla Al Shahi
Member	Jahanzeb Burana
Member	Sharol A Razar
Member	Kamil Gokhan Bozkurt
Audit committee	
Chairman	Harun Kapetanović
Vice Chairman	Abdul Hakim Kanan
Member	Abdallah Saleh Abu Khajil
Member	Mehmet Kamil Tumer
Member	Safet Proho
Sharia board	
Chairman	Prof. Dr. Mustafa Cerić until 23.05.2016
Chairman	Dr. Husein ef. Kavazović since 23.05.2016
Vice Chairman	Dr. Abdulsattar Boughoudah until 23.05.2016
Vice Chairman	Dr. Nizam Al-Yaqoobi since 23.05.2016, a member until this date
Member	Dr. Osaid Kailani since 23.05.2016
Member	Dr. Šukrija Ramić
Member	Saleh Michael Gassner

Management board	
CEO of the Bank	Amer Bukvić
Executive director	Emir Čehajić
Executive director	Emina Šišić
General Secretary of the Bank	Salih Purišević

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis for preparation and presentation of financial statements

These financial statements have been prepared under the Law on Accounting and Auditing of the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of Bosnia and Herzegovina, no. 83/09), the Law on Banks and Federal Banking Agency (hereinafter: FBA) decisions. Based on the Law on Accounting and Auditing of the Federation of Bosnia and Herzegovina, standards applied in the Federation of Bosnia and Herzegovina are International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) that have been translated into Bosnian language by an authorized accountant body.

The Bank applies all the IAS and IFRS and the amendments and interpretations which were published by the International Federation of Accountants (IFAC) and the International Accounting Standards Board (IASB). Therefore, these financial statements comply with requirements of IFRS.

These financial statements have been prepared in accordance with the historical cost principle, except for derivatives and other financial assets, which are measured at fair value.

Standards and interpretations are under procedure but are not effective yet.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2016, and have not been applied in preparing these financial statements.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

River Buna, Blagaj

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis for preparation and presentation of financial statements (continued)

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). In case of significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
  - Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014, and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

The Bank did not estimate the potential effect of the new standards and interpretations on the financial statements.

Standards and interpretations in issue but not yet effective

At the date of issuance of these financial statements the following standards, revisions and interpretations were under procedure but not yet effective:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB);
- IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019);
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017);
- Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017);

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis for preparation and presentation of financial statements (continued)

- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018);
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach);
- Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28);
- IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018);
- Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018);

The preparation of financial statements in conformity with the IAS and IFRS requires the use of certain critical accounting estimates. It also requires the Management to exercise its judgement in the process of applying the Company's accounting policies.

(All amounts are given in BAM '000, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis for preparation and presentation of financial statements (continued)

Definitions

The following terms for Islamic financial instruments are used in the financial statements with the meaning specified:

Murabaha

An agreement whereby the Bank sells to a customer a commodity or asset, which the Bank has purchased and acquired based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit.

Musharaka
An agreement between the Bank and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared according to the agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise.

Wakala
An agreement whereby one party provides a certain sum of money to an agent, who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

Ijara
Ijara is an agreement whereby the bank purchases certain property or equipment which is then leased to the customer.

Financial statements are based on historical costs except for financing of clients who are carried at amortized cost and financial assets at fair value through the income statement at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2. Functional and presentation currency

Foreign currency transactions are translated into the functional currency using the mean exchange rates of the Central Bank of Bosnia and Herzegovina prevailing at the latest date of reporting period.
Foreign currency monetary assets are denominated at the official exchange rate at the reporting date. If multiple exchange rates are available, forward rates are used, by which the future cash flow related to that transaction could be settled, in case they occurred. Non-monetary assets and items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction.

Exchange rates used in financial reports are the official rates established by the Central Bank of Bosnia and Herzegovina ("CBBH"). On 31 December the following exchange rates were used:

Exchange rate	31 December 2016	31 December 2015
	BAM	BAM
USD	1.85545	1.7901
EUR	1.95583	1.9558

2.3. Income from operations with clients

Net income from financing represents the Bank's share in income generated through investments of clients' assets that the Bank gave on disposal after deduction of expenses related to collection of invested assets.

Murabaha and Wakala
Income is recognized during validity period of contracts, having in mind effective profit margin.

Musharaka and Ijara
Income is calculated using effective profit rate to the declining principal amount.

In accordance with principles of Islamic banking, amounts held by clients in bank and deposit accounts can be used as one of sources for financing Musharaka projects, and expenses related to those deposit accounts are recognized as expenses related to Musharaka transactions.

In accordance with Sharia regulations, the Bank cannot generate income from interest rate. All collected penalties are donated to charity.

2.4. Fee, commission income and expense

Fees and commissions are generally recognized on an accrual basis when the service has been provided to the client. Fee and commission income includes all income from the provision of services to clients.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4. Fee and commission income and expense (continued)

Fees for approval of financing and guarantees are since 2011 charged in advance, while the revenue is accrued on an effective profit margin basis.
Fee and commission income relate to local and international payment operations, income from off-balance sheet operations (issuing guarantees), brokerage and dealing operations.

Fee and commission expenses relate to fees paid to the Central Bank of Bosnia and Herzegovina for the local payments operations, SWIFT costs, costs of card business, fees paid to the FBA for supervision of the banking sector, to the Agency for insurance of deposits, and other similar fees.

Fee and commission expenses are recognized in the period when they occurred.

2.5. Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

2.6. Income tax

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, financing of customers and advances to banks.

In the statement of financial position, cash and cash equivalents comprise of the following items: cash in hands in local and foreign currencies, held within the Bank's vault and cashier's offices, mandatory reserve with the CBBH.

2.8. Financial assets

Financial assets arise from financing operations, foreign exchange operations, deposits, payments operations, acting as intermediary in securities trading, purchase and collection of receivables and from providing other banking services.

The Bank classifies its financial assets in the following categories: financing of customers and receivables, financial assets at fair value through profit or loss, financial assets available-for-sale and financial assets held to maturity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs of inventories.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued profit margin, and for financial assets less any write-down for incurred impairment losses. Accrued profit margin includes amortization of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective profit margin method. Accrued profit margin income and accrued profit margin, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective profit margin is a method of allocating profit margin income or profit margin over the relevant period, so as to achieve a constant periodic rate of profit margin (effective profit margin) on the carrying amount. The effective profit margin is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective profit margin discounts cash flows of variable profit margin instruments to the next repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective profit margin.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8. Financial assets (continued)

Financial assets available for sale. Financial assets available for sale are all other that are not classified in three other groups. Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in profit margins, exchange rates or equity prices or that are not classified as financing of customers and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Financial assets available for sale are initially recognized at cost. These assets are subsequently measured at fair value and difference is recognized as other comprehensive income in equity.

In case of de-recognition of assets available for sale, the cumulative gain or loss previously recognized in equity is transferred to profit or loss.

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is showing signs of impairment. In the case of securities classified as available-for-sale, a significant decline or continued decline in the fair value of the security below its cost is indicated that such security is impaired. If there is evidence of impairment of financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value - it is recognized in the profit or loss. If, in future, the fair value of debt instruments classified as available for sale increases as result of an event occurring after the impairment loss is recognized in the profit or loss for impairment, loss is reversed through other comprehensive income.

Financial assets at fair value through statement of comprehensive income has two categories: financial instruments held for trading (including derivatives) and those placed in this category. Financial instruments are placed in this category if they were made or acquired for the purpose of sale or purchase within short period of time, for the purpose of short term gain acquisition, or by the Management's decision.

Financial assets stated at fair value through income statement are recognised by the Bank on date of trading with those assets.

Financial assets at fair value through profit and loss are initially recognised at fair value. All transaction costs are immediately recognised in income statement. Subsequent measurement is also carried at fair value.

Liabilities for taken loans and other borrowings are initially recognised at the agreed amount, which is amount that was actually received. Such liabilities are stated at amortised cost, and all consequent transaction costs are recognised in the income statement of the current period.

The determination of fair value of financial assets and liabilities at fair value through profit or loss and financial assets available for sale is their quoted bid market price at the reporting date without any deductions for selling costs. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reason, the fair value cannot be reliably measured by market price, the Bank establishes fair value by using valuation techniques. These include the use of prices achieved in recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8. Financial assets (continued)

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate related to the reporting date for a financial instrument with similar terms and conditions. Where a pricing model is used, inputs are based on market related measures at the reporting date.

Derecognition. 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. The above mentioned scenario occurs when the Bank transfers all risks and benefits related to ownership to another business entity or, when its rights were achieved, transferred or expired.

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished. If the terms of a financial liability change, the Bank will cease recognizing that liability and will instantaneously recognize a new financial liability, with new terms and conditions.

Specific financial instruments

Placements with other banks (Murabaha)

Murabaha transactions represent investments in sale and purchase of goods recognized as placements with other banks. Difference between purchase and sale price is treated as return rate on the basis of investments, and it is calculated during validity of sale and purchase agreement, using effective profit margin method. These investments are classified as financial instruments and they are stated at amortized cost.

All other purchases and sales of investments are recognized at the transaction date, when the Bank acquired liability to buy or sell assets.

Financing of customers

Financing of customers and advances to customers are presented at amortised cost net of impairment allowances to reflect the estimated recoverable amounts.

Investment in other companies

Investments in other companies are classified as available for sale and they are measured at fair value, unless there is a reliable fair value measure, when these investments are stated at cost net of impairment allowances.

Borrowings

Profit margin bearing borrowings are recognized initially at fair value, less attributable transaction costs. Subsequent to initial recognition, profit margin bearing borrowings are stated at amortised cost with any difference between proceeds (net of transaction costs) and redemption value being recognised in the income statement over the period of the borrowings on an effective profit margin basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8. Financial assets (continued)

Liabilities towards banks and clients

Liabilities towards banks and clients are classified as other liabilities and are initially recognized at fair value increased for transaction costs, while subsequently they are stated at amortised cost on an effective profit margin basis.

Repossessed collateral

Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue financing of customers. The assets are initially recognised at fair value when acquired and included in other assets, other financial assets or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets, and are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets.

Financing of customers related commitments

The Bank issues financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as financing of customers. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment.

Impairment of financial assets

Impairment of financial assets relates to financial assets classified as financing of customers and receivables carried at amortized cost and off-balance sheet items, in particular:

- Balance sheet exposure:
  - Financing of customers,
  - Overdrafts/current accounts, revolving financing lines of customer/financing lines,
  - Receivables such as guarantees and bills.

- Off - balance sheet exposure:
  - Guarantees,
  - Letters of credit,
  - Unused portions of financing (including overdrafts, other revolving products, unused approved financing etc.).

Impairment calculation covers the following:
- Retail exposures,
- Corporate exposures (including also SME clients),
- Bank and other financial institutions exposure,
- Government and municipalities exposure,
- Other receivables (including IAS 39 category 'loans and receivables,' that have not been previously included).

River Neretva, Počitelj

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8. Financial assets (continued)

The Bank calculates impairment provisions in accordance with the International Accounting Standard 39 – "Financial instruments: Recognition and Measurement" and in accordance with the FBA regulations. The provisions are calculated with regard to the risk of individual exposures and existence of objective evidence of impairment, taking into consideration quality, value, and market quality of collaterals. Impairment provisions are created on a group (portfolio) and individual basis. Individually significant exposures are assessed for impairment on an individual basis, while the remainder of the finance portfolio is assessed collectively. Individually significant exposures are those exceeding BAM 100,000 for corporate and BAM 50,000 retail and overdue for more than 90 days.

All individually significant exposures for which loss events have been identified are measured individually. This approach is used for all clients and all types of exposures.

The Bank applies portfolio impairment when:

1. Clients meet their obligations (portfolio impairment provisions), or
2. Clients do not meet their obligations, but exposures are not individually significant (as such these are not subject to specific or individual impairment provisions) and included in the portfolio pool.

a) Financial assets carried at amortized cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If such evidence is identified, the recoverable amount of assets is being evaluated.

Client financing is disclosed net of impairment, in order to reflect their estimated recoverable value. Specific provisions for uncollectable amounts are formed in comparison with carrying amount of client financing, whose value is identified as impaired, based on regular balance reviews.

Impaired financial assets are classified in categories, depending from collectability level, which is being determined based on a number of days in default, estimate of financial position of the debtor and quality of security instruments for collection of assets. Provisions are determined using historical provision rates, applied to uncollectible principle amount.

Increase in provisions is recognized in income statement

If the receivables from financings and advances to customers are uncollectible, and all legal procedures have been completed and the final amount of loss is determined, those receivables are directly written off. 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 reversal of the previously recognised impairment loss is recognised in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8. Financial assets (continued)

Assets carried at amortised cost include shares available for sale, for which there is no reliable fair value. At each balance sheet date, the Bank estimates whether there is objective evidence on impairment of certain financial assets or group of financial assets.

b) Estimates of potential losses on financial assets in accordance with the requirements of the Banking Agency of the Federation of Bosnia and Herzegovina.

In accordance with the Decision of the Federal Banking Agency (FBA) classification of assets and statement of financial position items according to the degree of collectability, the Bank is required to classify financing, placements and other off-balance sheet items and its exposure to risk in categories A, B, C, D and E in accordance with the assessment collectability of financings and other investments on the basis of orderliness in payment of obligations of the debtor, debtor's financial position and collateral secured claims. The estimated amount of reserves for potential losses is calculated using the following percentages: 2% of financings classified in category A, 5% - 15% of the financings category B, 16% - 40% on financings from category C, 41 - 60% on financings from category D and 100% of the financings category E.

If the amount of provisions for loan losses, calculated in accordance with the Decision on minimum standards for credit risk management and classification of banks' assets, is greater than the sum of the amounts of balance sheet assets value adjustments and provisions for losses on off-balance sheet items and has already established reserves for credit losses, the Bank is required to treat the difference as missing provisions for loan losses in accordance with the foregoing decision. The amount of missing provisions for credit losses regulatory requirement is deducted from capital.

If the amount of adjustments and provisions for losses on off-balance sheet items is greater than the calculated amount of reserves for credit losses, the Bank is not required to establish additional provisions for loan losses. The Bank is not allowed to use excess provisions s for credit losses for individual clients or parties to offset the missing provisions for credit losses for other clients. In accordance with the same decision, the Bank can not diminish the amount already established reserves for credit losses under FBA regulations.

2.9. Provisions

Provisions for legal claims are recognized when:

- the Bank has a present legal or constructive obligation as a result of past events,
- it is more likely than not that an outflow of resources will be required to settle the obligation,
- the amount has been reliably estimated.

(All amounts are given in BAM '000, unless otherwise stated)

River Bosna

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9. Provisions (continued)

Where there are a number of similar obligations, the likelihood that an outflow will be required in a settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expected cash outflows to be required to settle the obligation.

For off-balance sheet liabilities provisions are formed in the following cases:

- Due to past event, because of which present payment liability of the bank exists;
- There is more than 50% probability that the bank will have to settle the liability;
- If it is possible to precisely measure the amount of the liability and to form provision in the same amount.

2.10. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the purchase price and directly associated cost of bringing the asset to a working 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 capitalized. Gains or losses on the retirement or disposal are included in the statement of income in the period they occur.

Properties in the course of construction are carried at cost, less impairment loss, if any. Depreciation commences when the assets are ready for their intended use. Depreciation is calculated using linear method, based on estimated useful life of an asset.

Estimated depreciation rates were as follows:

	2016	2015
	%	%
Buildings	1.3 – 2.0%	1.3 – 2.0%
Computers	20.0 – 33.3%	20.0 – 33.3%
Vehicles	15.5%	15.5%
Other equipment	7.0 – 33.3%	7.0 – 33.3%

(All amounts are given in BAM '000, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10. Property and equipment (continued)

Impairment
At each balance sheet date, the Bank reviews the carrying amounts of its property, plant and equipment, in order to determine if there is any evidence of losses occurred due to impairment of the above mentioned assets. If the Bank determines such evidence, the recoverable amount of assets is being estimated, in order to be able to determine potential loss from impairment of assets.

Recoverable value is net selling price or value in use, depending on which of the two is higher. For the purposes of evaluation of value in use, estimated future cash flows are discounted to the present value using discount rate before taxation, which reflects the current market evaluation of time value of cash and risks specific to that asset.

If the estimated recoverable amount of an asset is lower than the carrying amount, then, the carrying amount of that asset is impaired to the recoverable amount. Impairment losses are recognized as an expense, unless that asset is a land or a building which is not used as an investment property, and which is stated at revaluated amount, and in that case, the impairment losses are stated as decrease of value, caused by the revaluation of an asset.

With subsequent cancelling of impairment losses, the carrying amount of assets is being increased to the revised estimated recoverable amount of that asset, and this carrying amount is not higher than carrying amount that would be determined if in the previous years there were no recognized losses to those assets, due to impairment. Cancelling of impairment losses is recognized as income, if the asset is not stated at estimated value, when the cancelled impairment losses are stated as increase due to revalorization.

2.11. Intangible assets

(a) Licences

Acquired licences for computer software are shown at historical cost.
Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives.

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. The estimated useful lives are:

Software and license	5 years

Amortisation method and estimated useful life are reviewed and corrected, if necessary, at each balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10. Property and equipment (continued)

2.12. Employee benefits

Short term benefits

The Bank pays pension and health insurance on behalf of its employees, which are calculated on the gross salary paid, as well as taxes on salaries, which are calculated on the net salary paid. The Bank pays the above contributions into the Federal pension and health fund, according to statutory rates during the course of the year. In addition, meal allowances, transport allowances and vacation bonuses are paid in accordance with local legislation. These expenses are recorded in the income statement in the period in which the obligation arises.
Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Long-term benefits: retirement severance payments and early retirement bonuses

The Bank pays to its employees retirement severance benefits upon retirement in an amount representing three times the average salary in the FBiH as calculated by the Federal Bureau of Statistics or three times the salary of the employee in question (depending of what is more favourable to the employee).

The cost of providing benefits is determined using the projected unit credit method. The project unit credit method considers each period of service giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate equal to interest rate of state securities.

2.13. Share capital

Share capital
Share capital comprises ordinary shares and is stated in BAM at nominal value.

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

2.14. Statutory reserves

A statutory reserve has been created in accordance with the Company law of FBiH, which requires 10% of the profit for the year to be transferred to this reserve until statutory reserves reach 25% of issued share capital. If the statutory reserves do not reach 25% of issued share capital within 5 business years, a public limited company is required to increase its transfer to this reserve to 20% of its profit for the year at the end of the fifth and any following business year until capital reserves reach 25% of issued share capital. The legal reserve can be used for covering current and prior year losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15. Off-balance sheet commitments and contingent liabilities

In the ordinary course of business, the Bank enters into finance-related commitments which are recorded in off-balance sheet accounts and primarily comprise guarantees, letters of credit and undrawn financing commitments. Such financial commitments are recorded in the Bank's balance sheet if and when they become payable.

2.16. Managed funds for and on behalf of third parties

The Bank manages funds for and on behalf of corporate and retail clients. These amounts do not represent the Bank's assets and are excluded from the balance sheet. For the services rendered the Bank charges a fee.

2.17. Related party transactions

According to IAS 24 related parties are parties that represent:

- The parties which directly, or indirectly through one or more intermediaries, control or are controlled by, or is under common control with, the entity;
- Parties in which the Bank has an interest in the entity that gives it significant influence over the entity and that are neither related parties nor joint investment;
- Private individuals who directly or indirectly have voting power in the Bank that gives them significant influence over the Bank, or any other subject which is expected to influence or be influenced by a related party to the Bank;
- Members of the key management personnel i.e., individuals with authorizations and responsibilities for planning, managing and controlling the Bank's operations, including directors and key management.

When taking into account each possible transaction with a related party, attention is focused on basis of relationship not just legal form (Note 29).

3. FINANCIAL RISK MANAGEMENT

3.1. Strategy in use of financial instruments

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, profit margin risk and other price risk), credit risk and liquidity risk.

Risk management is carried out by the Bank's departments in charge for individual risks under policies approved by the Management board.

The Bank has established an integrated system of credit risk management by introducing a set of policies and procedures for analysis, evaluation, acceptance and risk management, which is carried out by the Credit risk and market management department. Also, the Bank has adopted procedures for following the liquidity risk within the Asset and financial institutions department, while the Operating risk management, information security and internal controls department follows and assesses the level of the operational risk.

The Management board has overall responsibility for the establishment and oversight of the Bank's credit risk management framework.

Risk steering and risk controlling processes are adjusted in a timely manner to reflect changes in the operating environment.

3.2. Credit risk

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 maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position. For guarantees and financing commitments, the maximum exposure to credit risk is the amount of the commitment.

Credit risk management, provisions and impairment policies

Exposure to credit risk / risk financing / must be covered by adequate collateral, in accordance with legal regulations and internal regulation. Types of collateral acceptable to the Bank, as well as the relationship between the value of collateral and loan / financing or guarantees are established by the Procedure on Collateral Management.

In order to diversify assets and minimize the concentration of credit risk / risk financing in its operations, the Bank focuses its financing activities over a large number of customers as possible, with smaller amounts.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2. Credit risk (continued)

In case of significant exposures, the Bank uses co-financing with other banks based on customer suggestions, the Bank itself or another bank. Any bank participating in the co-funding assumes the risk of its part of the portfolio.
The Bank takes into account the dispersion of risk by particular regions and sectors, in an effort to direct investments in all economic sectors:

- citizens and independent entrepreneurs ;
- individual farmers;
- companies from trading activities;
- companies from industrial activities;
- companies from other activities (tourism, catering, etc.)
- banks and financial institutions.

Committee for financing and investment of the Bank or the organization unit decides whether to approve a particular financing or guarantee of individuals and legal entities that cause or increase exposure to credit risk / risk financing / on the basis of:

- Any legal transaction whose value comes to the Bank's exposure to an individual user or group of people;
- Any legal transaction which would result in increased exposure towards the individual user or group of people.

Exceptions are financing below BAM 25,000 where a branch manager can approve financing for individuals. Each branch has different limits.

Financing exceeding BAM 4,000,000 and financing of groups of related parties exceeding BAM 6,000,000 are subject to approval of the Supervisory board.

Decisions on exposure to credit risk / risk financing to related parties are carried out in accordance with Specific policies with procedures for operations with related parties.

Financing granted to Bank employees shall be made in accordance with the Policies and procedures for financing Bank's employees.

Credit risk management function is separate from everyday tasks related to relationships with clients and lending / financing. Credit and market risk department assesses the credit risk for each financing request of legal entities, and also requests for financing of retail entities over BAM 25,000. For amounts ranging from BAM 10,000 to BAM 25,000 Credit and market risk department makes subsequent assessments of the credit risk by choosing random samples, so as to cover 1/3 of the total number of approved loans. The assessment is part of the proposal for financing.

Credit and market risk management division should monitor limits, respectively the maximum level of exposure in relation to individual customers or groups of related parties at the moment of approval of financing in respect of statutory rules, as follows:

- allowed exposure to credit risk without collateral (amounts in BAM) = Bank share capital x 5%;
- large exposures to credit risk (amounts in BAM) = Bank share capital x 15%;
- allowed exposure to credit risk without first-class collateral (amounts in BAM) = Bank share capital x 25%;
- maximum exposure to credit risk (amounts in BAM) = Bank share capital x 40%;
- sum of large exposures to credit risk (amounts in BAM) = Bank share capital x 300%.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2. Credit risk (continued)

Sector of financial control, strategic planning and general accounting quarterly reports to Bank Management on the development of exposure limits defined by articles 4, 5, 6, 7, 8, 9 of the Program, policies and procedures to ensure diversification and concentration of financing risk after the completion of the accounting entries that have resulted in a reduction of capital. Bank Management provides guidance to remove any excess, and more balanced distribution, management and control of existing and potential exposure of the Bank.

Exposure to credit risk / financing risk / must be covered by adequate collateral, in accordance with legal and internal regulations. Types of collateral acceptable to the Bank, as well as the ratio between the value of collateral and loan / financing or guarantees are established by the Decision on the definition, assessment and treatment of the pledged collateral.

Impaired financial assets are those for which the Bank determines that it is unlikely that they will be able to collect all principal and accrued profit margin under the provisions of the financing contract customers.

Individually impaired financial assets are those assets that are individually assessed to be impaired and for which the Bank makes provision for impairment, which is an estimate of incurred losses.

Classification of receivables is based on an analysis of delays in settlement of obligations and indicators of return. In the case of individual value adjustments for clients financing, the estimated future cash flows are discounted in accordance with the requirements of IAS 39 in order to reach an appropriate allowance for impairment.

The process of calculating impairment losses involves several stages. The system generates a classification proposal, which is reviewed by the sector for management of credit and market risk control.

The report is then sent to the Sector for Corporate Banking and the Sector for Retail Banking for evaluation of classification and submission of evidence of expected future cash flows.

Sector for management of credit and market risk, after the evidence of the expected future cash flows and comments, creates a final proposal in respect of impairment losses and classification for the current month.

Management Board reviews of the proposal of the Sector for management of credit and market risk, along with comments of the Sector for Corporate Banking, and the Sector for Retail Banking and makes the final decision about the level of impairment losses for that month.

The Sector of financial control, strategic planning and general accounting is responsible for booking the impairment provisions, based on the delivered final report on the level of needed impairment losses for the current month.

(All amounts are given in BAM '000, unless otherwise stated)

The following table presents maximum credit risk exposure for statement of financial position items:

31 December 2016	Gross exposure	Individual impairment	Collective impairment	Net exposure
Cash and balances with banks	172,930	-	(5)	172,925
Obligatory reserve with Central Bank B&H	60,373	-	-	60,373
Placements in other banks	38,987	-	(2)	38,985
Financial assets available for sale	30	-	(1)	29
Financial assets at fair value through profit or loss	497	-	-	497
Financing of customers	537,970	(13,911)	(9,431)	514,628
Other financial assets	2,705	(27)	(278)	2,399
Total	**813,492**	**(13,938)**	**(9,717)**	**789,837**
31 December 2015				
Cash and balances with banks	149,989	-	(4)	149,985
Obligatory reserve with Central Bank B&H	33,680	-	-	33,680
Placements in other banks	42,479	-	-	42,479
Financial assets available for sale	64	-	(15)	49
Financial assets at fair value through profit or loss	557	-	-	557
Financing of customers	470,914	(8,861)	(8,023)	454,030
Other financial assets	1,693	(27)	(104)	1,562
Total	**699,376**	**(8,888)**	**(8,146)**	**682,342**

3. FINANCIAL RISK MANAGEMENT (continued)

3.2. Credit risk (continued)

The table below shows the gross amount of assets exposed to credit risk for each category of exposures of the Bank, together with related amounts of impairment losses. Non-performing assets are those assets overdue for more than 90 days exceeding thresholds set or restructured assets, as a consequence of financial difficulties of the borrower, where the principal, profit margin or fee is decreased or the repayment term extended. Assets overdue for more than 90 days which do not exceed thresholds for individual assessment are included in the non performing category for reporting purposes.

Exposure to credit risk from financing customers and investments in banks (excluding obligatory reserve) according to rating is as follows:

	Banks		Corporate		Retail		Total	
	Gross	Impairment	Gross	Impairment	Gross	Impairment	Gross	Impairment
31 December 2016								
Without rating	211,916	(6)	-	-	-	-	211,916	(6)
Performing assets	-	-	276,206	(2,471)	195,512	(1,072)	471,718	(3,543)
Non-performing assets	-	-	54,465	(13,845)	11,787	(5,954)	66,252	(19,799)
Total	**211,916**	**(6)**	**330,671**	**(16,316)**	**207,299**	**(7,026)**	**749,886**	**(23,348)**
Total (net)	**211,910**		**314,355**		**200,273**		**726,538**	
31 December 2015								
Without rating	192,468	(4)	-	-	-	-	192,468	(4)
Performing assets	-	-	251,406	(3,024)	162,218	(1,188)	413,624	(4,212)
Non-performing assets	-	-	46,450	(8,994)	10,840	(3,678)	57,290	(12,672)
Total	**192,468**	**(4)**	**297,856**	**(12,018)**	**173,058**	**(4,866)**	**663,382**	**(16,888)**
Total (net)	**192,464**		**285,838**		**168,192**		**646,494**	

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2. Credit risk (continued)

Provisions for impairment and provisioning policy

Impaired financings and securities are those financings and securities for which the Bank determines that it is not likely it will be able to collect all principal and accrued profit margins under the provisions of the financing agreement / securities.
Individually impaired assets are those assets that are individually assessed to have been impaired and where loan loss provisions have been recognized.
The Bank assesses impairment of receivables for incurred losses in the financing portfolio.
Classification of receivables is based on an analysis of delays in settlement of obligations and indicators of return.
In case of individually impaired assets, future estimated cash flows are discounted in accordance with the requirements of IAS 39, to reach the appropriate amount of provision.

Receivables from financing of customers net of provisions are presented in the table below:

	Total receivables from financing of customers	Impairment	Net receivables from financing of customers
31 December 2016			
Portfolio risk provisions	480,371	(9,431)	470,940
Specific risk provisions	57,599	(13,911)	43,688
	537,970	**(23,342)**	**514,628**
31 December 2015			
Portfolio risk provisions	421,395	(8,023)	413,372
Specific risk provisions	49,519	(8,861)	40,658
	470,914	**(16,884)**	**454,030**

In the table above, portfolio risk provisions include impairment provisions for collectively assessed performing and collectively assessed non performing clients.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2. Credit risk (continued)

Collateral

With a view to minimising credit risk, the Bank has a rulebook for security for financing of customers and other placements and secures its credit exposures by taking one or more of the following instruments:

- cash,
- mortgages over properties,
- pledges over movable assets,
- pledges over inventories,
- guarantees (banks and corporate),
- assignment of receivables,
- securities,
- insurance policies,
- guarantors (individuals and legal entities, state BH, FBiH and local government).

Fair value of collaterals is based on the estimated value of the security instrument at the time of borrowing, and is updated periodically in accordance with the Procedure on Collateral Management. Only cash, mortages over properties and pledges over movable assets are used in assessing impairment losses.

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)
3.2. Credit risk (continued)

Financing and collateral exposure:

	Retail		Corporate		Total	
	Maximum exposure to financing risk	Fair value of collateral	Maximum exposure to financing risk	Fair value of collateral	Maximum exposure to financing risk	Fair value of collateral
31 December 2016						
Performing	194,441	54,734	273,734	209,721	**468,175**	**264,455**
Non-performing	5,833	5,125	40,620	43,065	**46,453**	**48,190**
Net financing exposure	200,274	59,859	314,354	252,786	**514,628**	**312,645**
31 December 2015						
Performing	161,030	49,466	248,382	217,581	**409,412**	**267,047**
Non-performing	7,162	5,461	37,456	37,888	**44,618**	**43,349**
Net financing exposure	168,192	54,927	285,838	255,469	**454,030**	**310,396**

In the table above, performing relates to collectively assessed performing clients, whereas non performing relates to collectively assessed and individually assessed non performing clients.

3. FINANCIAL RISK MANAGEMENT (continued)
3.2. Credit risk (continued)

An analysis of finance quality of financing of customers is as follows:

	Retail	Corporate	Total
31 December 2016			
Neither past due nor impaired	1	377	378
Past due but not impaired	0	4	4
Impaired, gross	207,298	330,290	537,588
Portfolio and specific risk provisions	(7,026)	(16,316)	(23,342)
	200,273	**314,355**	**514,628**
31 December 2015			
Neither past due nor impaired	2,523	488	3,011
Past due but not impaired	54	2	56
Impaired, gross	170,549	297,298	467,847
Portfolio and specific risk provisions	(4,867)	(12,017)	(16,884)
	168,259	**285,771**	**454,030**

During 2016, the Bank changed its internal methodology for calculating PD and CR parameters, so that the previous one, simplefied method was replaced with migration matrices model. In 2016, the Bank determined and adopted the way of impairment calculation for other assets, and also more accurate way of using VUS factor for reprogrammed exposures.

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2. Credit risk (continued)

Analysis by credit quality of financing to customers outstanding as of 31 December 2016 is as follows:

	Neither due nor impaired	Due not impaired	Impaired receivables, gross	Impairment provision – collective and individual	*Total net*
Corporate					
No delays	377	1	285,808	(4,921)	*281,265*
Up to 30 days	-	-	12,579	(274)	*12,305*
From 30 to 90 days	-	3	3,786	(425)	*3,364*
Over 90 days	-	-	28,117	(10,696)	*17,421*
Subtotal	***377***	***4***	***330,290***	***(16,316)***	***314,355***
Retail					
No delays	1	-	174,966	(1,090)	*173,877*
Up to 30 days	-	-	18,864	(225)	*18,639*
From 30 to 90 days	-	-	3,036	(191)	*2,845*
Over 90 days	-	-	10,432	(5,520)	*4,912*
Subtotal	***1***	***-***	***207,298***	***(7,026)***	***200,273***
Total	**378**	**4**	**537,588**	**(23,342)**	**514,628**

River Trebišnjica

3. FINANCIAL RISK MANAGEMENT (continued)

3.2. Credit risk (continued)

Analysis by credit quality of financing to customers outstanding as of 31 December 2015 is as follows:

	Neither due nor impaired	Due not impaired	Impaired receivables, gross	Impairment provision – collective and individual	*Total net*
Corporate					
No delays	488	2	252,226	(3,788)	*248,928*
Up to 30 days	-	-	11,670	(1,705)	*9,965*
From 30 to 90 days	-	-	9,649	(147)	*9,502*
Over 90 days	-	-	23,753	(6,377)	*17,376*
Subtotal	***488***	***2***	***297,298***	***(12,017)***	***285,771***
Retail					
No delays	2,182	18	141,733	(1,097)	*142,836*
Up to 30 days	341	16	14,464	(149)	*14,672*
From 30 to 90 days	-	-	3,920	(28)	*3,892*
Over 90 days	-	20	10,432	(3,593)	*6,859*
Subtotal	***2,523***	***54***	***170,549***	***(4,867)***	***168,259***
Total	**3,011**	**56**	**467,847**	**(16,884)**	***454,030***

3. FINANCIAL RISK MANAGEMENT (continued)

3.2. Credit risk (continued)

The Bank monitors concentration of credit risk by industry segments and geographic locations.
Concentration risk in the net balance sheet exposures by industry is as follows:

	2016		2015	
Concentration risk by industry sector	**BAM'000**	**%**	**BAM'000**	**%**
Trade	111,908	21.7%	115,626	25.47%
Production	106,337	20.7%	86,786	19.11%
Construction	25,616	5.0%	28,954	6.38%
Transport and communications	14,122	2.7%	14,400	3.17%
Agriculture, hunting, fishing	6,542	1.3%	6,784	1.49%
Property	10,379	2.0%	10,773	2.37%
Tourism	2,187	0.4%	1,751	0.39%
Education and other public services	5,895	1.1%	1,406	0.31%
Financial institutions	26	0.0%	3	0.00%
Other	31,344	6.1%	19,355	4.26%
Total corporate	**314,355**	61.1%	**285,838**	62.96%
Housing	134,330	26.1%	115,063	25.34%
Other	61,392	11.9%	48,865	10.76%
Entrepreneurs	4,552	0.9%	4,264	0.94%
Total retail	**200,273**	38.9%	**168,192**	37.04%
Total	**514,628**	100.0%	**454,030**	100.00%

The structure of client financing is regularly monitored by the Risk Management Division and the Financing Committee in order to identify possible events that could have a major impact on the client financing portfolio (the usual risk factors), and if necessary reduce the Bank's exposure to certain sectors of the economy.

Financing of customers is approved to clients in Bosnia and Herzegovina.

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)
3.2. Credit risk (continued)

Reprograms and restructuring

Reprogrammed and restructured assets are assets which are refinanced, restructured or in any other manner changed, therefore, asset conditions are changed because the beneficiary was not able to repay the debt as regulated by the initial agreement. In such cases, the beneficiary benefits from different rates (lower), modified terms of repayment (term or repayment dynamics) or any other changes to the initial agreement, in order to enable the beneficiary to service its debt in an improved way, which is also safer for the Bank. Decision on restructuring is made by Committee for finance and investment.

Restructured and reprogrammed financing of customers as of 31 December 2016 and 2015 can be summarized as follows:

	Number of restructured financing of customers	Value
31 December 2016		
Corporate - restructured	18	16,468
Retail - restructured	10	423
Total	**28**	**16,891**
31 December 2015		
Corporate - restructured	29	11,285
Retail - restructured	18	562
Total	**47**	**11,847**

Intensive client monitoring

The Bank introduces intensive monitoring for customers who do not meet the criteria for transfer into non-quality assets, based on various criteria, such as large financing volumes placed, negative operating trends, increase of debt, calculation of clients' capital adequacy, non-payment or irregular repayment of liabilities. The proposal for placing on intensive monitoring list comes from the business units of the Bank, and the final decision is made by the Management. Intensive monitoring means that the client monitored remains in the operating unit of the Bank and the employees of the Department for collection of doubtful placements and re-structuring placements are being involved in the processing, as well as employees of the Legal department, if needed.

3. FINANCIAL RISK MANAGEMENT (continued)
3.2. Credit risk (continued)

Intensive client monitoring stops in following cases:

- due to extinguishment of all placements of the Bank (by payment, or write-off)
- by the decision of the Bank's Committee for finance and investment on transfer of the clients' receivables to the Department for collection of doubtful placements and re-structuring (in case of further deterioration of the client's status)
- by initiating insolvency proceeding over the client
- in all other cases when the Bank's Management brings the decision on termination of the intensive client monitoring.

3.3. Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in profit margin, foreign currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit margin, foreign exchange rates and equity prices.

The Management board sets limits and guidelines for monitoring and mitigating of market risks, which is regularly monitored by risk committees of the Bank.

3.4. Foreign exchange risk

Exposure to currency risk arises from financing, deposit-taking and trading activities and is controlled on a daily basis in accordance with legal limits for each currency, as well as in total amounts for assets and liabilities denominated in or linked to foreign currencies.

Treasury department is responsible for daily management of the Bank's currency position in accordance with legal and internal regulations.

In order to manage foreign exchange rate risk more efficiently, the Bank monitors economic and other business changes in the environment in order to predict possible changes in foreign currency activities, exchange rates, currencies and risk.

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

3.4. Foreign exchange risk (continued)

Concentration of currency risk of assets and liabilities

The Bank had the following significant currency positions as at 31 December 2016 and 31 December 2015. The Bank has a number of contracts which are in domestic currency but are linked to foreign currency. The domestic currency value of the principal balances and profit margin payments are therefore determined by trends in foreign currencies.

As at 31 December 2016	BAM	EUR	USD	Other currencies	Total
Financial assets					
Cash and balances with banks	116,769	38,902	12,376	4,879	172,925
Obligatory reserve with CBBH	60,373	-	-	-	60,373
Placements with other banks	49	33,255	5,681	-	38,985
Financial assets available for Sale	28	-	1	-	29
Financial assets at fair value through profit or loss	497	-	-	-	497
Financing of customers	514,628	-	-	-	514,628
Other financial assets	2,293	105	1	1	2,399
Total financial assets	**694,638**	**72,262**	**18,058**	**4,879**	**789,837**
Financial liabilities					
Due to banks	-	52,814	-	-	52,814
Due to customers	326,850	153,527	17,819	4,424	502,620
Borrowings	15,477	97,792	-	-	113,268
Other financial liabilities	6,313	4,940	75	1	11,329
Total financial liabilities	**348,640**	**309,073**	**17,894**	**4,425**	**680,031**
Net foreign exchange position	**345,998**	**(236,811)**	**164**	**454**	**109,806**

3. FINANCIAL RISK MANAGEMENT (continued)

3.4. Foreign exchange risk (continued)

As at 31 December 2015	BAM	EUR	USD	Other currencies	Total
Assets					
Cash and balances with banks	109,479	24,159	12,085	4,262	149,985
Obligatory reserve with CBBH	33,680				33,680
Placements with other banks	48	42,055	376	-	42,479
Financial assets available for Sale	28	-	21	-	49
Financial assets at fair value through profit or loss	557	-	-	-	557
Financing of customers	454,030	-	-	-	454,030
Other financial assets	776	783	3	-	1,562
Total financial assets	**598,598**	**66,997**	**12,485**	**4,262**	**682,342**
Financial liabilities					
Due to banks	-	52,619	-	-	52,619
Due to customers	262,920	149,598	12,350	3,788	428,656
Borrowings	18,020	97,791	-	-	115,811
Other financial liabilities	4,248	5,189	21	1	9,459
Total financial liabilities	**285,188**	**305,197**	**12,371**	**3,789**	**606,545**
Net foreign exchange position	**313,410**	**(238,200)**	**114**	**473**	**75,797**

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

3.4. Foreign exchange risk (continued)

Difference in net foreign exchange positions exists because all financing with currency clause EUR are shown in BAM position. Since the position of other currencies do not show any significant changes, the Bank is not exposed to any other significant currency risk.

Sensitivity analysis – currency risk

The Bank is mainly exposed to EUR and USD. The BAM is pegged to the Euro (1 EUR = 1.95583 EUR). Changing the rate would require amendment of the law and approval by Parliamentary Assembly of Bosnia and Herzegovina. A sensitivity analysis was performed on a 10% increase or decrease in USD against the local currency.

	Effect USD	
	2016	2015
Change in profit	16	11

The Bank takes on exposure to effective changes in the prevailing exchange rate differences on the financial position and cash flows. The Bank monitors its foreign exchange position for compliance with the regulatory requirements of the Federal Banking Agency for limits on open positions. The Bank seeks to match assets and liabilities denominated in foreign currencies to avoid foreign currency exposures.

3.5. Profit margin risk

The Bank's activities are affected by changes in profit margin in that profit margin bearing assets and liabilities mature, or their profit margin are changed, at different times or in different amounts.

The majority of the customer financing portfolio is initially contracted at profit margin rates that are based on 6 months or 1 year EURIBOR. The Management Board changes these rates in response to changes in the prevailing market rates. Most of the contracts for financing of retail and corporate entities have a contract clause "not less than" which protects the Bank from potential losses caused by a decrease in EURIBOR.

Profit margin rate of assets and liabilities

The tables below summarize the Bank's exposure to profit margin risks at the end of the year. The table presents the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing of maturity dates or changes in profit margin.

3. FINANCIAL RISK MANAGEMENT (continued)

3.5. Profit margin risk (continued)

As at 31 December 2016	No profit margin	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total	Fixed profit margin
Financial assets								
Cash and balances with banks	66,297	106,628	-	-	-	-	172,925	106,628
Obligatory reserve with CBBH	-	60,373	-	-	-	-	60,373	60,373
Placements with other banks	-	33,377	-	5,608	-	-	38,985	38,985
Financial assets available for sale	29	-	-	-	-	-	29	-
Financial assets at fair value through profit/ loss	497	-	-	-	-	-	497	-
Financing of customers	27,098	36,279	25,402	128,668	208,156	89,025	514,628	-
Other financial assets	2,399	-	-	-	-	-	2,399	-
Total financial assets	**96,320**	**236,658**	**25,402**	**134,277**	**208,156**	**89,025**	**789,837**	**205,987**
Financial liabilities								
Due to banks	-	33,252	-	19,562	-	-	52,814	33,252
Due to customers	234,249	18,289	22,420	100,949	125,536	1,177	502,620	185,072
Borrowings	97,792	17	173	227	4,660	10,400	113,268	98,775
Other financial liabilities	11,329	-	-	-	-	-	11,329	-
Total financial liabilities	**343,370**	**51,558**	**22,593**	**120,738**	**130,196**	**11,577**	**680,031**	**317,099**
Unadjusted gap	**(247,050)**	**185,100**	**2,809**	**13,539**	**77,960**	**77,448**	**109,806**	**(111,112)**

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(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

3.5. Profit margin risk (continued)

As at 31 December 2015	No profit margin	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total	Fixed profit margin
Financial assets								
Cash and balances with banks	50,101	99,884	-	-	-	-	149,985	99,884
Obligatory reserve with CBBH	-	33,680	-	-	-	-	33,680	33,680
Placements with other banks	-	42,479	-	-	-	-	42,479	42,479
Financial assets available for sale	49	-	-	-	-	-	49	-
Financial assets at fair value through profit/ loss	557	-	-	-	-	-	557	-
Financing of customers	10,004	30,685	21,254	108,415	206,392	77,280	454,030	-
Other financial assets	1,562	-	-	-	-	-	1,562	-
Total financial assets	**62,273**	**206,728**	**21,254**	**108,415**	**206,392**	**77,280**	**682,342**	**176,043**
Financial liabilities								
Due to banks	-	33,056	-	-	19,563	-	52,619	-
Due to customers	182,742	6,101	20,285	73,237	143,821	2,470	428,656	114,884
Borrowings	97,792	238	476	2,212	9,625	5,468	115,811	98,775
Other financial liabilities	9,459	-	-	-	-	-	9,459	-
Total financial liabilities	**289,993**	**39,395**	**20,761**	**75,449**	**173,009**	**7,938**	**606,545**	**213,659**
Unadjusted gap	**(227,720)**	**167,333**	**493**	**32,966**	**33,383**	**69,342**	**75,797**	**(37,616)**

Sensitivity analysis - interest rate risk

Depending on the net debt at some period of time, any change of profit margins has proportional impact on the performance of the Bank. The Bank's exposure rates of profit margins on fixed assets and financial liabilities are detailed in the section on liquidity risk management.

If the profit margins on loans and deposits were 1% higher / lower, with all other parameters held constant, the profit / loss would have been higher / lower by the amount of BAM 190 thousand (2015: BAM 206 thousand) due to higher / lower cost of profit margins.

3. FINANCIAL RISK MANAGEMENT (continued)

3.6 Liquidity risk

Liquidity risk arises in the funding of the Bank's activities and in the management of its positions. The Bank consolidates its operations in respect of liquidity risk in accordance with applicable regulation and internal policies aimed at maintenance of liquidity reserves, harmonization of assets and liabilities with targeted liquidity indicators and liquidity limits.

The Bank has access to various funding sources. Assets are collected through different types of instruments including various types of deposits from retail and corporate clients, specific credit lines/borrowings and share capital. This increases the flexibility of funding sources, decreases dependence on one source and generally ensures better management of financing cost.

The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required meeting business goals and targets. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

Tables below analyses the assets and liabilities of the Bank at 31 December 2016 and 2015 into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity except for equity securities available for sale which have been classified in accordance with their secondary liquidity characteristics as maturing within one month, as well as obligatory reserve.

(All amounts are given in BAM '000, unless otherwise stated)

Bridge Festina Lente, Sarajevo

3. FINANCIAL RISK MANAGEMENT (continued)

3.6 Liquidity risk (continued)

As at 31 December 2016	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Financial assets						
Cash and balances with banks	172,925	-	-	-	-	172,925
Obligatory reserve with CBBH	60,373	-	-	-	-	60,373
Placements with other banks	33,377	-	5,608	-	-	38,985
Financial assets available for sale	29	-	-	-	-	29
Financial assets at fair value	497	-	-	-	-	497
Financing of customers	40,629	26,732	135,152	223,065	89,050	514,628
Other financial assets	2,399	-	-	-	-	2,399
Total financial assets	**310,229**	**26,732**	**140,760**	**223,065**	**89,050**	**789,836**
Financial liabilities						
Due to banks	33,252	-	19,562	-	-	52,814
Due to customers	247,361	22,869	103,794	126,558	2,038	502,620
Borrowings	17	173	227	4,660	108,191	113,268
Other financial liabilities	11,329	-	-	-	-	11,329
Total financial liabilities	**291,959**	**23,042**	**123,583**	**131,218**	**110,229**	**680,031**
Maturity gap	**18,270**	**3,690**	**17,177**	**91,847**	**(21,179)**	**109,805**

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

3.6 Liquidity risk (continued)

As at 31 December 2015	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Financial assets						
Cash and balances with banks	149,985	-	-	-	-	149,985
Obligatory reserve with CBBH	33,680	-	-	-	-	33,680
Placements with other banks	42,479	-	-	-	-	42,479
Financial assets available for sale	49	-	-	-	-	49
Financial assets at fair value	557	-	-	-	-	557
Financing of customers	35,192	22,049	110,920	208,569	77,300	454,030
Other financial assets	1,562	-	-	-	-	1,562
Total financial assets	**263,504**	**22,049**	**110,920**	**208,569**	**77,300**	**682,342**
Financial liabilities						
Due to banks	33,056	-	-	19,563	-	52,619
Due to customers	188,843	20,285	73,237	143,821	2,470	428,656
Borrowings	-	-	364	5,907	109,540	115,811
Other financial liabilities	9,459	-	-	-	-	9,459
Total financial liabilities	**231,358**	**20,285**	**73,601**	**169,291**	**112,010**	**606,545**
Maturity gap	**32,146**	**1,764**	**37,319**	**39,278**	**(34,710)**	**75,797**

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3. FINANCIAL RISK MANAGEMENT (continued)

3.7. Presentation of financial statements by category

For the purposes of measurement, IAS 39 "Financial instruments: Recognition and Measurement" the Bank classifies financial assets into the following categories: (a) financing of customers and receivables, (b) financial assets at fair value through profit or loss, (c) financial assets available-for-sale.. Financial liabilities are classified as other financial liabilities.

The following tables provide a reconciliation of financial assets with measurement categories.

31 December 2016	Financing of customers and receivables	At fair value through profit and loss	Available-for-sale assets	Total
Assets				
Cash and balances with banks	172,925	-	-	172,925
Cash and the balances with the Central Bank of Bosnia and Herzegovina	60,373	-	-	60,373
Placements with banks	38,985	-	-	38,985
Financial assets available for sale	-	-	29	29
Financial assets at fair value through profit or loss	-	497	-	497
Financing of customers	514,628	-	-	514,628
Other financial assets	2,399	-	-	2,399
	789,310	**497**	**29**	**789,836**

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(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

3.7. Presentation of financial statements by category (continued)

31 December 2015	Financing of customers and receivables	At fair value through profit and loss	Available-for-sale assets	Total
Assets				
Cash and balances with banks	149,985	-	-	149,985
Cash and the balances with the Central Bank of Bosnia and Herzegovina	33,680	-	-	33,680
Placements with banks	42,479	-	-	42,479
Financial assets available for sale	-	-	49	49
Financial assets at fair value through profit or loss	-	557	-	557
Financing of customers	454,030	-	-	454,030
Other financial assets	1,562	-	-	1,562
	681,736	**557**	**49**	**682,342**

3. FINANCIAL RISK MANAGEMENT (continued)

3.8. Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1), where quoted prices from actual trades are frequently available (i.e. over 90% of trading days in a year).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Bank's financial assets and liabilities that are measured at fair value at 31 December 2016.

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets:				
- Financial assets available for sale	-	29	-	29
- Financial assets at fair value through profit or loss	-	497	-	497
Total assets	**-**	**526**	**-**	**526**

(All amounts are given in BAM '000, unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

3.8. Fair value estimation (continued)

The following table presents the Bank's financial assets and liabilities that are measured at fair value at 31 December 2015.

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets:				
- Financial assets available for sale	-	49	-	49
- Financial assets at fair value through profit or loss	-	557	-	557
Total assets	**-**	**606**	**-**	**606**

Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

All of the resulting fair value estimates are included in level 2 except for unlisted equity securities, where the fair values have been determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.

3. FINANCIAL RISK MANAGEMENT (continued)

3.9. Capital management

The Bank's objectives when managing capital which is a broader concept than the 'equity' on the face of statement of financial position are:

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

Capital adequacy and the balance of capital are monitored regularly by the Management board and Asset and liability committee of the Bank based on the relevant internal acts and regulations prescribed by the FBA.

The table below summarizes the composition of regulatory capital and the capital adequacy ratio of the Bank for years ended 31 December 2016 and 2015, prepared in accordance with the FBA regulations.

	2016	2015
The Bank's net capital in accordance with FBA regulations		
Basic capital	124,960	89,124
Additional capital	7,310	8,381
Reserves for losses from loans by regulation requirements	(24,245)	(24,246)
Capital, net	**108,025**	**73,259**
Total risk of weighted assets and credit equivalents	555,601	490,939
Total weighted operating risk	29,180	24,840
Total risk weighted assets and off-balance items	**584,781**	**515,779**
Capital adequacy ratio as at 31 December	**18.5%**	**14.2%**

The minimum capital adequacy ratio required by the FBA regulations is 12%.

Old Bridge in Mostar

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The Bank makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Bank's credit risk portfolio represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment losses of financing customers

The Bank monitors the creditworthiness of its customers on an ongoing basis. Impairment allowances are determined based on the category in which the asset is classified.

In determining the overall level of impairment allowance required for financing of customer's management considers delay in scheduled payments, the financial condition of the borrower, its capacity to service its obligations, quality of collateral, economic environment, historic collection and past debt experience.

A significant proportion of the Bank's credit risk exposures represent amounts which were due to be repaid under original terms, but have been rescheduled, in certain cases with capitalized profit margin and grace periods. Due to that, it makes it difficult to assess the ultimate recoverability of the rescheduled exposure and, in view of the uncertainty, increases the risk of ultimate recoverability. There are also certain exposures where ultimate recoverability depends on the realizable value of the underlying collateral which was assessed at the time of initiation of the financing by certified court surveyors. In view of the undeveloped local real estate market, the recent adverse economic environment as well as possible administrative and legal difficulties, there is uncertainty whether or not, and in what value, the Bank will be able to enforce its rights and repossess the collateral.

Taxation

The Bank provides for tax liabilities in accordance with the tax laws of the Federation of Bosnia and Herzegovina. Tax returns are subject to the approval of the tax authorities who are entitled to carry out subsequent inspections of taxpayers' records. The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Bank may not coincide with that of the management. As a result, transactions may be challenged by tax authorities and the Bank may be assessed additional taxes, penalties and interest which can be significant. In accordance with the Law on Tax Authority of the Federation of Bosnia and Herzegovina, the limitation period for tax liabilities is five years. This means that the Tax Authorities have right to determine the payment of outstanding obligations in period of five years from the origination of the liability.

(All amounts are given in BAM '000, unless otherwise stated)

5. NET INCOME FROM FINANCING AND INVESTMENTS

	2016	2015
Income from corporate sector financing (Musharaka)	17,700	16,538
Income from retail sector financing (Musharaka, Ijara)	12,040	10,380
Income from operations with other banks (Murabaha, Wakala)	862	1,294
Income from obligatory reserve	-	-
Income from financing and investments	*30,602*	*28,212*
Expenses from amounts due to corporate customers (Musharaka)	(1,863)	(2,233)
Expenses from amounts due to retail customers (Musharaka)	(3,059)	(4,711)
Expenses from amounts due to banks(Murabaha, Wakala)	(631)	(659)
Expenses from amounts due to customers and banks	*(5,553)*	*(7,603)*
Total	**25,049**	**20,609**

6. NET FEE AND COMMISSION INCOME

	2016	2015
Fees from payment transactions	3,472	4,032
Guarantees and letters of credit issued	1,026	1,184
Fees from foreign exchange transactions	1,299	1,087
Commission income - foreign exchange customer desk transactions	419	427
Other banking services	3,587	2,110
Fee and commission income	*9,803*	*8,840*
Fee expense from card and other bank activities	(952)	(859)
Fees to the FBA and foreign correspondent banks	(707)	(637)
Fees from payment transactions	(298)	(266)
Commission expenses related to foreign currency trading	(56)	(180)
Fee and commission expense	*(2,013)*	*(1,942)*
Total	**7,790**	**6,898**

7. NET FINANCIAL GAINS

	2016	2015
Foreign exchange gains, net	882	715
(Loss)/ gain on assets at fair value through profit or loss, net (Note 18)	(89)	(41)
Dividend income	19	19
Total	**812**	**693**

8. PERSONNEL EXPENSES

	2016	2015
Salaries	5,766	5,077
Taxes and contributions related to salaries	3,547	3,119
Other employee expenses	2,479	2,580
Total	**11,792**	**10,776**

The average number of employees for the year ended 31 December 2016 was 359 (31 December 2015: 326). Personnel expenses include BAM 1,940 thousand (2015: BAM 1,707 thousand) of defined pension contributions paid into the State pension plan. Contributions are calculated as percentage of the gross salary paid.

9. OTHER OPERATING EXPENSES

	2016	2015
Office materials and costs of maintenance	1,103	999
Deposit insurance	1,073	948
Rent	933	945
Security	813	749
Professional services	837	644
Marketing and advertising	693	533
Telecommunications	559	523
Energy, postage and communications	227	230
Utilities	181	200
Temporary service contracts	217	197
Supervisory board and shareholders meetings	259	174
Membership fees	84	102
Other expenses	922	812
Total	**7,900**	**7,056**

(All amounts are given in BAM '000, unless otherwise stated)

10. NET IMPAIRMENT LOSSES AND PROVISIONS

	2016	2015
Financing of customers (Note 19)	7,749	3,394
Cash and cash equivalents (Note 14)	5	4
Placements with banks (Note 16)	(2)	(3)
Other assets (Note 20)	164	38
Provisions for contingent liabilities and commitments (Note 27)	(114)	318
Total	**7,802**	**3,751**

11. OTHER OPERATING INCOME

	2016	2015
Income from consulting services rendered	2,110	732
Collected written-off receivables from customer financing – principal	65	91
Collected written-off receivables – other	-	1
Other operating income	311	150
Total	**2,486**	**974**

12. INCOME TAX EXPENSE

Income tax recognized in the statement of comprehensive income includes current tax only.

	2016	2015
Current tax	753	644
Deferred tax	-	-
Total income tax expense	**753**	**644**

Reconciliation of the accounting profit and income tax expense

	2016	2015
Profit before tax	7,111	6,253
Income tax at the rate of 10%	*711*	*625*
Adjustments:		
- non-taxable income	(18)	(19)
- non-deductible expenses	441	209
Taxable profit for the year	*7,534*	*6,443*
Income tax at the rate of 10%	**753**	**644**
Effective income tax rate (%)	**10.59%**	**10.30%**

As at 31 December 2016, there are no temporary differences which may give rise to deferred taxes.

13. EARNINGS PER SHARE

	2016	2015
Average number of shares	1,305,567	949,695
Net profit	6,358	5,609
Basic earning per share	**4.87**	**5.91**
Diluted earning per share	**4.87**	**5.91**

Simple EPS is calculated by dividing the net profit for financial year by average number of shares

The Bank's shares are not subject to the right of preferential dividend.

14. CASH AND BALANCES WITH BANKS

	31 December 2016	31 December 2015
Current accounts with the Central Bank	106,628	99,884
Current accounts with other banks	49,713	34,809
Cash on hand	16,589	15,296
Provisions for impairment (Note 10)	(5)	(4)
Total	**172,925**	**149,985**

Credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Counterparties with external credit rating (Moody's)	31 December 2016	31 December 2015
A1	6,344	
A2	10,220	9,843
A3	-	-
BA1	-	-
BA2	-	-
BAA1	-	9,099
BAA2	-	-
B3	226	137
CAA1	-	23
CAA3	-	-
BB (Standard Poor's)	64	-
BBB (Fitch)	32,107	15,027
BB (Fitch)	7	33
B (Fitch)	-	166
Not rated	745	481
	49,713	**34,809**

The Central Bank of Bosnia and Herzegovina does not have its own credit rating, hence country rating is used (B3 according to Moody's, the evaluation was conducted in February 2016, B according to Standard & Poor's, the rating was confirmed in September 2016).

(All amounts are given in BAM '000, unless otherwise stated)

15. OBLIGATORY RESERVE WITH THE CENTRAL BANK

The obligatory reserve represent amounts required to be deposited with the Central Bank BH ("Central Bank"). Obligatory reserve is calculated on the basis of deposits and borrowings taken regardless of the currency the funds are denominated in.

The obligatory reserve requirement represents:

- 10% of deposits and borrowings

16. PLACEMENTS WITH BANKS

	31 December 2016	31 December 2015
Placements with banks – gross	38,987	42,479
Provisions for impairment	(2)	-
Total	**38,985**	**42,479**

As at 31 December 2016 profit rates on placements in EUR were between 0.5% and 3.5% p.a. (31 December 2015 – profit rates on placements in EUR were between 0.20% and 3.75% p.a.).

The movements in the provision for impairment of placement with banks are summarized as follows:

	31 December 2016	31 December 2015
Balance as at 1 January	-	3
Net (decrease)/increase in provisions (Note 10)	2	(3)
Balance as at 31 December	**2**	**-**

Credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Counterparties with external credit rating	31 December 2016	31 December 2015
A2 (Moody's)	-	376
Baa3 (Moody's)	-	23
BAA2 (Moody's)	-	-
BBB (Fitch Ratings)	38,962	42,055
BB (Standard Poor's)	-	-
Not rated	25	25
	38,987	**42,479**

River Trebižat

(All amounts are given in BAM '000, unless otherwise stated)

17. FINANCIAL ASSETS AVAILABLE FOR SALE

	31 December 2016	31 December 2015
Investments in related parties	10	10
Other investments	19	39
Total	**29**	**49**

Investments that are not quoted on the Stock Exchange are as follows:

Company	Activity	% of ownership	Country
International Islamic rating agency	Rating agency for Islamic Institutions	0.37	Kingdom of Bahrain
Registry of Securities of Federation of Bosnia & Herzegovina	Registration, safekeeping and maintenance of data of securities	0.687	Bosnia and Herzegovina
BBI Real Estate d.o.o.	Real-estate management, development of properties for sale	0.03	Bosnia and Herzegovina

Credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. Since specific credit ratings were not available, country ratings were used. As at 31 December 2016, according to Moody's, BAM 28 thousand were classified as B3 (2015 - Bosnia and Herzegovina BAM 28 thousand) and BAM 1 thousand as Ba2 negative (2015 - Kingdom of Bahrain, BAA2 negative – BAM 21 thousand).

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2016	31 December 2015
Listed equity securities		
Securities – domestic companies	497	557
Total	**497**	**557**

The Bank incurred a net fair value loss on this portfolio of BAM 89 thousand (2015: net loss of BAM 41 thousand, Note 7). Gain from dividends received from securities listed on a stock exchange amounted to BAM 19 thousand (2015: BAM 19 thousand, Note 7).

Credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. Since specific credit ratings were not available, country ratings were used. As at 31 December 2016, according to Moody's, BAM 497 thousand were classified as B3 (2015 – Bosnia and Herzegovina B3 – BAM 557 thousand).

19. FINANCING OF CUSTOMERS

	31 December 2016	31 December 2015
Corporate		
- short term	95,601	75,444
- long term	235,069	222,412
	330,671	**297,856**
Retail		
- short term	9,555	8,891
- long term	197,744	164,167
	207,299	**173,058**
Total gross financing of customers	***537,970***	***470,914***
Impairment allowance	(23,342)	(16,884)
Net financing of customers	**514,628**	**454,030**

Financing of customers is related to customers in Bosnia and Herzegovina. The movements in impairment allowances of financing of customers are summarized as follows:

	31 December 2016	31 December 2015
Balance as at 1 January	16,884	13,928
Net increase in provisions (Note 10)	7,749	3,394
Recoveries – repossessed collaterals	(1,203)	(462)
Other decreases	(88)	24
Balance as at 31 December	**23,342**	**16,884**

19. FINANCING OF CUSTOMERS (continued)

Profit rates for financing of customers, given as at 31 December 2016 and 2015 are summarized as follows:

	31 December 2016		31 December 2015	
	'000 BAM	Annual profit rate	'000 BAM	Annual profit rate
Companies	330,671	1.50%-14.675%	297,856	2.036%-14.675%
Citizens	207,299	1.50%-12.35%	173,058	1.50%-12.70%
Total	**537,970**		**470,914**	

20. OTHER ASSETS

	31 December 2016	31 December 2015
Receivables from other banks in relation to card operations	145	927
Fee receivables	167	114
Receivables from the State	62	63
Other financial assets	2,330	589
Provision for impairment	(305)	(131)
Other financial assets	*2,399*	*1,562*
Acquired tangible assets	3,929	2,482
Prepaid expenses	671	481
Material, tools and consumables	-	3
Provisions for impairment	(9)	(20)
Other non-financial assets	4,591	*2,946*
Total	**6,990**	**4,508**

Movement in provision for impairment of other assets is as follows:

	2016	2015
Balance as at 1 January	151	113
Net increase in provisions (Note 10)	164	38
Balance at 31 December	**315**	**151**

Acquired tangible assets relate to repossessed collaterals. During 2016, the Bank repossessed collaterals in the amount of BAM 3,018 thousand (2015: BAM 1,591 thousand).

21. PROPERTY AND EQUIPMENT

	Land and buildings	Computers	Furniture and equipment	Assets in progress	Leasehold improvements	Total
Cost						
1 January 2015	**9,989**	**2,224**	**5,464**	**1,797**	**1,342**	**20,816**
Additions	-	-	-	6,710	-	6,710
Transfers	1,857	590	728	(3,225)	50	-
Transfer – intangible assets	-	-	-	(554)	-	(554)
Disposals	-	(108)	(59)	-	(20)	(187)
31 December 2015	**11,846**	**2,706**	**6,133**	**4,728**	**1,372**	**26,785**
1 January 2016	11,846	2,706	6,133	4,728	1,372	26,785
Additions	-	-	-	2,131	-	2,131
Transfers	4,961	282	827	(6,121)	51	-
Transfer – intangible assets	-	-	-	(269)	-	(269)
Disposals	-	(101)	(40)	-	-	(141)
31 December 2016	**16,807**	**2,887**	**6,920**	**469**	**1,423**	**28,506**
Accumulated depreciation						
1 January 2015	**649**	**1,624**	**3,174**	**-**	**1,253**	**6,700**
Depreciation charge	141	270	552	-	31	994
Disposals	-	(107)	(50)	-	(11)	(168)
31 December 2015	**790**	**1,787**	**3,676**	**-**	**1,273**	**7,526**
1 January 2016	790	1,787	3,676	-	1,273	7,526
Depreciation charge	163	301	625	-	35	1,124
Disposals	-	(100)	(34)	-	-	(134)
31 December 2016	**953**	**1,988**	**4,267**	**-**	**1,308**	**8,516**
Net book value						
31 December 2016	**15,854**	**899**	**2,653**	**469**	**115**	**19,990**
31 December 2015	**11,056**	**919**	**2,457**	**4,728**	**99**	**19,259**

Assets in progress relate to purchased business premises in Sarajevo and Gračanica, not yet put in use.

22. INTANGIBLE ASSETS

	Software and licenses	Assets in progress	Total
Cost			
1 January 2015	**2,273**	**-**	**2,273**
Transfers from property and equipment	-	554	554
Transfers	554	(554)	-
Write - offs	(86)	-	(86)
31 December 2015	**2,741**	**-**	**2,741**
1 January 2016	*2,741*	-	*2,741*
Transfers from property and equipment	-	269	269
Transfers	264	(264)	-
31 December 2016	**3,005**	**5**	**3,010**
Accumulated Amortization			
1 January 2015	**1,547**	**-**	**1,547**
Amortization charge	344	-	344
Write-offs	(86)	-	(86)
31 December 2015	**1,805**	**-**	**1,805**
1 January 2016	*1,805*	-	*1,805*
Amortization charge	407	-	407
31 December 2016	**2,212**	**-**	**2,212**
Net book value			
31 December 2016	**793**	**5**	**798**
31 December 2015	**936**	**-**	**936**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts are given in BAM '000, unless otherwise stated)

23. DUE TO CUSTOMERS

	31 December 2016	31 December 2015
Companies:		
Current/settlement accounts	137,407	104,874
Term deposits	127,604	116,003
Total companies	**265,011**	**220,877**
Citizens		
Current/settlement accounts	97,121	75,532
Term deposits	140,488	132,247
Total citizens	**237,609**	**207,779**
Total	**502,620**	**428,656**

The average profit margin charged on term deposits in 2016 and 2015 was 1.97% and 3.07% respectively.

Accrued, not paid, profit margin as of 31 December 2016 amounted to BAM 2,145 thousand (2015: BAM 2,287 thousand).

24. DUE TO OTHER BANKS

	31 December 2016	31 December 2015
Islamic Development Bank, Saudi Arabia	19,562	19,562
Kuveyt Turk Katlim Bankasi a.s., Istanbul, Republic of Turkey	12,714	13,497
Turkiye Finans Katilim Bankasi a.s., Republic of Turkey	10,758	10,758
Albaraka Turk Participation Bank Istanbul, Republic of Turkey	9,780	8,802
Total	**52,814**	**52,619**

Islamic Development Bank, Jeddah, Saudi Arabia deposited an amount of EUR 10 million. The deposit carries an annual profit margin of 6 month LIBOR for EUR plus 2.00 bps. Maturity date of the deposit is 23 June 2017.

Turkiye Finans Katilim Bankasi a.s. deposited a short-term deposit in the amount of EUR 5.5 million, for the period 28 December 2015 to 4 January 2016 with an annual profit margin of 0.75%.

Kuveyt Turk Katlim Bankasi a.s., Istanbul deposited a short-term deposit in the amount of EUR 6.9 million, for the period 24 December 2015 to 4 January 2016 with an annual profit margin of 0.65%.

Albaraka Turk Participation Bank Istanbul deposited a short-term deposit in the amount of EUR 4.5 million, for the period 28 December 2015 to 4 January 2016 with an annual profit margin of 0.50%.

Accrued, and not paid profit margin as of 31 December 2016 for these deposits amounted to BAM 6 thousand (2015: BAM 8 thousand)

(All amounts are given in BAM '000, unless otherwise stated)

River Pliva, Jajce

25. BORROWINGS

	31 December 2016	31 December 2015
T.C.Ziraat Bankasi, Republic of Turkey	97,792	97,792
Ministry of Finance Federation of Bosnia and Herzegovina (Foundation ODRAZ)	14,347	16,593
Ministry of Finance Federation of Bosnia and Herzegovina (IFAD)	1,129	1,426
Total	**113,268**	**115,811**

The Bank obtains financing from TC Ziraat Bankasi, the Ministry of Finance of Bosnia and Herzegovina and the World Bank bearing profit margins which may be lower than rates at which the Bank could source the funds from government and non-government related lenders.

In March 2008 the Bank signed contract with the Federal Ministry of Finance related to funds provided by International Fund for Agricultural Development (IFAD) whereby the Bank uses the funds to finance customers. Repayment period is 12 years (one-time payment) with a grace period of 2 years before profit margin is charged, at 2% per annum.
A new contract with the Federal Ministry of Finance for IFAD's V project was signed on 20 June 2013. Repayment period is 5 years (bullet repayment) with 2 years grace period. Agreed fixed profit margin amounts to 2% p.a.
The Bank has signed the contract with the Federal Ministry of Finance, and Foundation for Sustainable Development (World Bank) in October 2010. The project funds development of SMEs. The Bank repays principal quarterly in accordance with amortization plans of final users of funds. The maximum duration is 10 years. The final deadline for use of these funds is July 2014. That profit margin is six-month EURO LIBOR [illegible]1%.

A new contract, representing a continuation of the project for improving the availability of finance to small and medium enterprises, was signed with the Federal Ministry of Finance and the Foundation for Sustainable Development-Project Implementation Unit of the World Bank on 24 December 2013. Deadline for implementation is 31 July 2016.

(All amounts are given in BAM '000, unless otherwise stated)

26. OTHER LIABILITIES

	31 December 2016	31 December 2015
Managed funds	4,734	4,655
Liabilities to Ministry of economy of Canton Sarajevo	1,930	-
Unallocated payments received	1,918	1,957
Interbank transactions – Central Bank and Master card	852	1,233
Liabilities to suppliers	727	803
Liabilities to shareholders of liquidated ICB Bank, FBiH	339	338
Liabilities for donations (Charity fund)	178	199
Other financial liabilities – inactive accounts	586	170
Income tax liability	65	104
Other financial liabilities	*11,329*	*9,459*
Deferred income from other financing operations	584	594
Liabilities for rebates – accrued amounts	328	313
Deferred fee income from guarantees	160	163
Other non-financial liabilities	*1,072*	*1,070*
Total	**12,401**	**10,529**

Managed funds recognized in amount of BAM 4,734 thousand mainly relate to received funds from the Islamic Development Bank in Jeddah for the Endowment fund. These received funds are recognized in amount of BAM 4,610 thousand (31 December 2015: BAM 4,610 thousand) are not yet placed.

Managed funds

Funds managed by the Bank on behalf of third parties do not represent the Bank's assets, and are therefore not included in the statement of financial position.

	31 December 2016	31 December 2015
Funds received		
IDB	5,538	5,505
Liabilities to Government – Ministry of Bosnian Homeland War veterans (FBiH)	4,393	2,950
ZiraatBank BH d.d. Sarajevo	2,216	2,890
Foundation Al Mactoum	390	390
Endowment fund	1	1
Total	**12,538**	**11,736**
Funds placed		
Retail clients -placed funds	4,009	2,996
Corporate clients – placed funds	3,795	4,085
Total	**7,804**	**7,081**
Difference in managed funds	**4,734**	**4,655**

The Bank does not bear risk for these placements, and charges a management fee ranging between 1% and 2%.

27. PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2016	31 December 2015
Provisions for off-balance liabilities	805	847
Provisions for severance and unused vacation days	192	264
Total	**997**	**1,111**

Movement in provisions for liabilities and charges:

	Provisions for off-balance sheet liabilities	Provisions for severance payments and unused holidays	Total
Balance as at 1 January 2015	580	213	793
Increase (Note 10)	267	51	318
Balance as at 31 December 2015	**847**	**264**	**1,111**
Balance as at 1 January 2016	*847*	*264*	*1,111*
Increase (Note 10)	(42)	(72)	(114)
Balance as at 31 December 2016	**805**	**192**	**997**

Impairment losses for off-balance sheet exposure are recognized through net impairment losses and provisions in the statement of comprehensive income (Note 10).

(All amounts are given in BAM '000, unless otherwise stated)

28. SHARE CAPITAL

The Bank's ownership structure is as follows:

	31 December 2016			31 December 2015		
	Number of shares	Amount	%	Number of shares	Amount	%
Shareholders						
Islamic Development Bank, Saudi Arabia	593,487	50,031	45.46	431,707	36,393	45.46
Abu Dhabi Islamic Bank, UAE	356,040	30,014	27.27	258,994	21,833	27.27
Dubai Islamic Bank, UAE	356,040	30,014	27.27	258,994	21,833	27.27
Total	**1,305,567**	**110,059**	**100.00**	**949,695**	**80,059**	**100.00**

29. COMMITMENTS AND CONTINGENCIES

	31 December 2016	31 December 2015
Performance guarantees	36,688	35,125
Unused financing lines	26,833	22,002
Payment guarantees	10,394	11,950
Letters of credit	3,971	2,644
Cheques	12	-
Total	**77,898**	**71,721**

Operating lease commitments

Where the Bank is the lessee the future minimum lease payments under non-cancellable operating leases are included in the table below

	No later than 1 year	1-5 years	Over 5 years	Total
As at 31 December 2016				
Operating lease commitments	770	1,586	16	2,372
Total	**770**	**1,586**	**16**	**2,372**
As at 31 December 2015				
Operating lease commitments	760	1,588	25	2,373
Total	**760**	**1,588**	**25**	**2,373**

(All amounts are given in BAM '000, unless otherwise stated)

29. RELATED-PARTY TRANSACTIONS

The Bank considers that it has an immediate related party relationship with its key shareholders and their subsidiaries, its associates, members of the Supervisory board, members of the Management board and other senior management of the Bank (together, "key management"), close family members of the key management and legal entities where key management and/or their close family members have control or significant influence.

Transactions with related parties are a part of the daily operations of the Bank.

Transactions with other related parties can be summarized as follows:

	31 December 2016		31 December 2015	
	Receivables	Payables	Receivables	Payables
Abu Dhabi Islamic Bank, UAE - Shareholder	10,157	-	10,219	-
BBI Real Estate d.o.o. - other	744	5,387	959	4,129
Islamic Development Bank, Saudi Arabia – Shareholder	-	19,591	-	19,573
Total	**10,901**	**24,978**	**11,178**	**23,702**

	2016		2015	
	Income	Expense	Income	Expense
BBI Real Estate d.o.o. - other	23	445	45	541
Islamic Development Bank, Saudi Arabia – Shareholder	-	375	-	-
Abu Dhabi Islamic Bank, UAE - Shareholder	80	-	-	-
Total	**103**	**820**	**45**	**541**

29. Related-party transactions (continued)

Directors and executives remuneration

The total remuneration of the Management Board and other members of key management were as follows:

	2016	2015
Salaries	867	693
Taxes and contributions on salaries	610	483
Bonuses	194	149
Total	**1,671**	**1,325**

30. EVENTS AFTER THE REPORTING PERIOD

There were no material events after the reporting date nor until the date of approval of these financial statements requiring adjustment or disclosure in the financial statements.


River Drina

River Miljacka, Latin Bridge (Princip Bridge)

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