Bosna Bank International

ANNUAL REPORT **2017**

SARAJEVO
BUSINESS
FORUM ' 17

Sarajevo Business Forum 2017
One Region, One Economy

BBI, SOCIALLY RESPONSIBLE BANK

CORPORATE SOCIAL RESPONSIBILITY CONTINUES TO BE AN IMPORTANT COMMITMENT OF BBI

Corporate social responsibility (CSR) activities are an important segment of Bosna Bank International's (BBI) engagement in society and a pillar of its identity. Its most important CSR activity is the Sarajevo Business Forum (SBF), an annual investment conference. First launched in 2010, and successfully organized by BBI every year since, SBF is made in cooperation with the Islamic Development Bank Group (IDB) and with the support of two other BBI shareholders: Dubai Islamic Bank and Abu Dhabi Islamic Bank.

SBF is one of the most important business events for Southeastern Europe. In eight years, the Forum has attracted more than 8.000 participants representing over 50 different countries. More than 20 prominent states' leaders were speakers at the Conference and this has drawn significant local and international media coverage. SBF provides excellent networking opportunities for all participants, enabling them to promote their companies, organizations, projects and ideas.

SBF 2017 was held from the 22nd and 23rd of May 2017 under the patronage of the Presidency of Bosnia and Herzegovina. The Forum attracted a record 1.700 participants. There were more than 317 B2B meetings held, and 190 projects were presented. The event had extensive regional and international media coverage with 333 registered news journalists.

"Trust is at the heart of every business deal. It is incredibly delicate – and powerful. It is also at the heart of this year's theme: building a bridge between East and West. As this region moves closer to EU integration, our global partners can build avenues of commerce that create value here and abroad. Our theme 'One Region, One Economy' is also alive and well: no single country in Southeastern Europe can accomplish this on their own. Only with a united approach and strong cooperation can our Region represent opportunity for investors. Our differences should be presented as an opportunity and not a threat. As such, this year's discussions will integrate energy, infrastructure, education, IT, tourism, trade and agriculture into a broader international context. Together we can strengthen this region, create success for our international partners, and give the next generation an opportunity to build a better and brighter future." said Amer Bukvić, CEO of BBI Bank, during the welcome address at SBF 2017.

With many years of experience in facilitating scholarship programs, BBI is locally recognized as a significant scholarship provider. Starting in 2010, the Bank 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 500 underprivileged Bosnian youth. BBI also provides annual scholarships to students attending a Master's program in Islamic banking offered in Sarajevo by the University of Sarajevo, the University of Bolton and BBI Academy. In 2017, as the official Counterpart Organization (CPO) in Bosnia and Herzegovina for the IDB Scholarship Program (SPMC), BBI distributed scholarships for 7 students from Bosnia and Herzegovina to study medicine, engineering and agriculture; 3 students in Istanbul, and 4 students pursued their education in Sarajevo. IDB implements its scholarship program with partner organizations in 65 countries around the world.

BBI has implemented other CSR activities in 2017 through aid projects from its own Charity Fund in Bosnia and Herzegovina. The Bank intends to continue its tradition of social responsibility and encourage a knowledge-based society characterized by meritocracy. Ultimately, BBI is committed to considering the welfare of society as a whole.

Mountain Zelengora

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STATEMENT BY THE CHAIRMAN OF THE GENERAL ASSEMBLY AND CHAIRMAN OF THE SUPERVISORY BOARD OF BOSNA BANK INTERNATIONAL

Chairman of the
Supervisory Board of BBI

On behalf of the General Assembly and Supervisory Board of Bosna Bank International (BBI), I am pleased to present BBI's financial results and business achievements for 2017, an exceedingly successful year for all of us.

We are pleased to note that BBI strengthened its market position together with the implementation of a number of socially responsible projects initiated by the Bank. These achievements are proof of BBI's highly differentiated blue ocean approach to the market. During 2017, BBI improved its position on FB&H banking market for key indicators such as total assets and total financings, progressing from 9th to 8th position, while taking the 6th place in terms of net profit (improvement from 7th position in 2016). During this period, BBI has supported some very promising projects and continued creating long-term value for its clients, partners and shareholders.

BBI continues to be an inspiration and role model to many with its efforts to generate a strong impact on society. The Bank serves communities and provides support to companies as well as educational opportunities for youth through scholarships. This impact-banking strategy produces positive results and increases opportunities for everyone. BBI's contribution to improving the image of Bosnia and Herzegovina also deserves the highest respect and praise. Sarajevo Business Forum continues to grow as an excellent platform for matching projects and investors from around the globe.

With Bosnian banking trends in mind, 2017 was overall a good year. There have been positive trends that reflect an increase of total assets, loans and deposits, as well as improved profitability in the entire banking sector. In this very competitive market, crowded with strong European Banks, BBI achieves results that outperform the competition in most areas.

The Board continued to raise its standard of excellence even higher this year, and this is reflected in the Bank's excellent performance. We believe that BBI will continue this trend while outperforming the market and pursuing new and sustainable growth strategies. Today, banks all over the world face major challenges and changes. They must become truly digital in order to remain competitive, and I am happy to see that BBI is a leading bank with several projects implemented in this field.

On behalf of the General Assembly and the Supervisory Board, I would like to express my appreciation to BBI's shareholders, Board Members, the Management of the Bank and the Bank's 400 employees for their great efforts in making BBI a success. We acknowledge their contributions and thank them for their commitment. Last but not least, I would like to thank our clients and partners for their continued loyalty. BBI's achievements testify to the trust our clients placed in us.

BBI shareholders are happy to applaud the management and staff of the Bank for their impressive results this year. However, we still have a long way to go. We hope that, with the Grace of God the Almighty, BBI will continue to be a great success in the following years as well.

Abdulaziz Ahmed Al Mheiri

Blagaj

STATEMENT BY CEO OF THE BANK

On behalf of the BBI Management Board, I express our sincere gratitude to our respected clients, business partners and associates. Thank you for your continued support and the confidence you have placed in BBI. The Bank has continued its course of responsible growth and strengthened its position in the mid-sized banks segment of Bosnia and Herzegovina during 2017. Despite stiff competition, the exceptional commitment of BBI management and employees across all divisions paid off as BBI continued its growth and outperformed major benchmarks. At the end of 2017, BBI Bank has 31 branch throughout the country, and we will continue to expand our branches and ATM network in the future.

It gives me a great pleasure to briefly present BBI's results for 2017 compared to the previous year. The Bank's total assets grew by 12.3%, reaching 917 million KM, with a financings growth of 13.6% and an increase in total deposits of 22.6%. In 2017, we succeeded in achieving the largest profits since the Bank's establishment – 9.7 million KM. This is an increase of 36.7% compared to the previous year. The number of clients has also trended upwards, with the number of retail clients growing by 12.6% and an increase in the number of corporate clients by 11.1%. All this comes with a significant decrease of our NPL ratio from 12.2% to 8.4%.

BBI has maintained its role as an effective catalyst for local and regional development. We continued our cooperation with government and municipalities in providing subsidized financing for SMEs and startups. Currently, BBI has 12 special lines of financing aimed to strengthen business entities across Bosnia and Herzegovina. Apart from regular networking activities of the VIP Business Club, in 2017 BBI organized the 8th Sarajevo Business Forum. The conference brought together 1.700 participants and generated 317 B2B meetings. Through the Forum, BBI has positioned itself as the gateway for foreign direct investment in Southeast Europe.

We also continued to invest in our employees and inspire excellence through every level of the Bank's organizational structure. BBI Academy programs are taught by BBI's internal experts, distinguished university professors and experts from other institutions worldwide. In December 2017, BBI Academy introduced a Young Leaders Program aiming to contribute to the development of successful young professionals to become thought leaders in their organizations and communities.

In 2017, BBI received two important awards that we are especially proud of: "The Strongest Islamic Retail Bank in Europe" from Cambridge Islamic Finance Analytica, and "Golden Bank in B&H for 2017" from the Swedish Analytical House Bisnode and Banke & Biznis Magazine. According to analysis performed by Bisnode, BBI has used its capacities and resources the most efficiently in the B&H banking market. In addition, BBI corporate clients are by far the least risky, despite the Bank's inclusion of startups in its portfolio.

We are aware that excellence starts at the Board level, and we offer special thanks to all BBI Board Members for their guidance. We also extend our thanks to the management of the Bank and its staff for their diligent efforts and contributions to 2017's impressive results. With God's help, we look forward to another successful year in 2018.

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
Member of the Management Board

Emir Čehajić
Member of the Management Board

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

Dino Selimović
Director of Marketing and Communications

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, 2017 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 2017 and up to the date of this report, the Supervisory Board comprised:

Supervisory board:

President	Abdul Aziz Ahmed Al Muhairi
Vice President	Abdulla Al Shehhi
Member	Jahanzeb Burana until 29.05.2017
Member	Muhamed Umair since 29.05.2017
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	Mr. Husein ef. Kavazović
Vice President	Dr. Nizam Al-Yaqoobi
Member	Dr. Osaid Kailani
Member	Dr. Šukrija Ramić
Member	Saleh Michael Gassner

Management Board:

As of December 31, 2017 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

Amer Bukvić, CEO of the Bosna Bank International d.d. (BBI) is the winner of the award for the best transformational leader in Islamic banking and BBI Bank for "The Most Successful Islamic Bank in Europe" by Cambridge IF Analytica from Great Britain

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, 2017 were signed by the Management Board on February 28, 2018 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
Member of the Management Board

Bosna Bank International d.d.
Trg djece Sarajeva bb
71000 Sarajevo
Bosnia and Herzegovina

INDEPENDENT AUDITORS' REPORT

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

Our opinion

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

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Law on accounting and auditing of the Federation of Bosnia and Herzegovina that are relevant to our audit of the financial statements in the Federation of Bosnia and Herzegovina. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern.
- If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o. Sarajevo
Sarajevo, Bosnia and Herzegovina

Adis Pecikoza,
Certified auditor

Mirza Bihorac,
director and licenced auditor

Sarajevo, 09 March 2018

FINANCIAL HIGHLIGHTS

BAM 141,731
(thousand) Total Capital

80.83%
Customer Financing to Deposit Ratio

8,616
(thousand) Net profit

Net Profit for 2017 increased by 36% to BAM 8,616 thousand

38,089
(thousand) total Revenues

Total Revenues for 2017 increased by 5% to BAM 38,089 thousand

Summary Income Statement in BAM '000

DESCRIPTION	2017	2016	2015	2014	2013	2012	2011	2 010	2009
Net revenue from funding	26,264	25,049	20,609	16,616	13,214	12,545	10,322	9,279	8,600
Other operating income	11,825	11,088	8,565	6,674	6,330	5,589	4,805	9,394	3,989
Total Revenues	**38,089**	**36,137**	**29,174**	**23,290**	**19,544**	**18,134**	**15,127**	**18,673**	**12,589**
Operating Profit	14,125	14,913	10,004	6,300	4,266	4,525	2,682	5,438	2,364
Credit Provisions and Impairment Charge	4,404	7,802	3,751	1,767	955	1,602	367	5,014	1,936
Profit before tax	9,721	7,111	6,253	4,533	3,311	2,923	2,315	424	428
Income tax	1,105	753	644	519	339	299	236	7	-32
Net profit	**8,616**	**6,358**	**5,609**	**4,014**	**2,972**	**2,624**	**2,079**	**417**	**460**

Summary Balance Sheet in BAM '000

DESCRIPTION	2017	2016	2015	2014	2013	2012	2011	2010	2009
Total Assets	915,274	815,215	705,483	636,432	561,796	427,552	337,121	308,747	245,583
Customer Financing	583,608	514,628	454,030	378,674	334,037	267,837	201,508	174,622	143,829
Customer Deposits	615,941	502,620	428,656	390,624	357,690	281,413	231,733	223,700	160,697

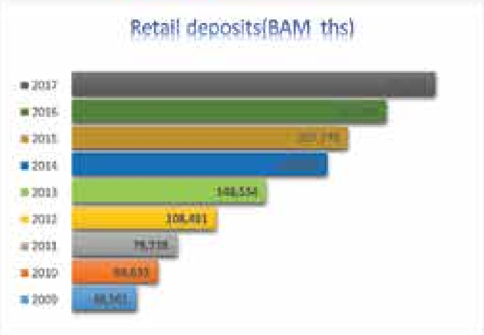
Financial Ratios

DESCRIPTION	2017	2016	2015	2014	2013	2012	2011	2010	2009
Customer Financing to Deposit Ratio	80.8%	80.7%	79.2%	73.6%	73.8%	75.7%	75.3%	71.0%	76.2%
Capital Adequacy Ratio (CAR,%)-Basel II	17.80%	18.50%	14.20%	14.80%	19.30%	15.20%	19.70%	22.30%	25.40%
Cost/Income ratio	62.92%	58.73%	65.71%	72.95%	78.17%	75.05%	82.27%	70.88%	81.22%

+5%


+36%


+29%


+15%


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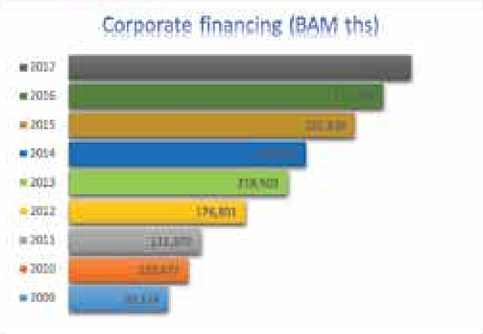

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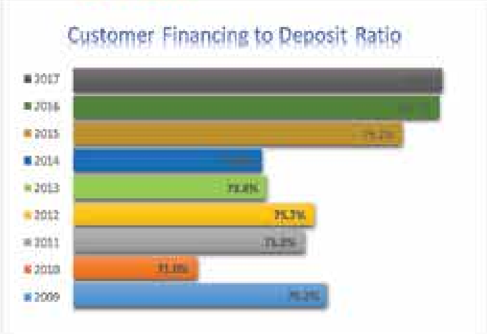
80.8%


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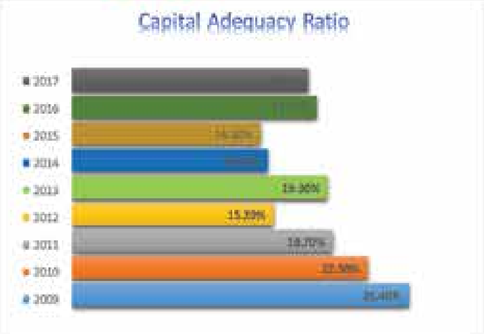

Current rating B&H	Moody´s Investors Service	Standard & Poor´s
Rating	B3/stable	B/stable
Date	14.11.2017	08.09.2017
Activity	Confirmed rating	Confirmed rating

The shareholders of the Bank	Standard & Poor's	Fitch Ratings	Moody's
Islamic Development Bank, Saudi Arabia	AAA/Stable	AAA/Stable	Aaa/Stable
Abu Dhabi Islamic Bank, United Arab Emirates		A+ / Stable/	A2 / Stable/
Dubai Islamic Bank, United Arab Emirates		A /Stable/	A3 / Stable/

STATEMENT OF COMPREHENSIVE INCOME

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

	Note	2017	2016
Income from operations with banks (Murabaha, Wakala) and from financing retail and corporate sector (Musharaka and Ijara)	5	31,530	30,602
Expenses in respect of amounts due to customers and to banks (Wakala)	5	(5,266)	(5,553)
Net income from financing and investments		**26,264**	**25,049**
Net impairment losses and provisions	10	(4,404)	(7,802)
Net income from profit margin after provision expenses		**21,860**	**17,247**
Fee and commission income	6	11,762	9,803
Fee and commission expense	6	(2,526)	(2,013)
Net financial gains	7	1,006	812
Other operating income	11	1,583	2,486
Personnel expenses	8	(13,621)	(11,792)
Depreciation expenses	20, 21	(1,664)	(1,532)
Other operating expenses	9	(8,679)	(7,900)
Profit before income taxes		**9,721**	**7,111**
Income tax expense	12	(1,105)	(753)
Net profit for the year		**8,616**	**6,358**
Other comprehensive income		-	-
Total comprehensive income		**8,616**	**6,358**

Notes on pages 8 to 59 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 2017	31 December 2016
ASSETS			
Cash and balances with banks	13	201,756	172,925
Obligatory reserve with the Central Bank	14	73,877	60,373
Placements with banks	15	26,526	38,985
Financial assets available for sale	16	29	29
Financial assets at fair value through profit or loss	17	414	497
Financing of customers	18	583,608	514,628
Other assets	19	8,631	6,990
Property and equipment	20	19,765	19,990
Intangible assets	21	668	798
TOTAL ASSETS		**915,274**	**815,215**
LIABILITIES			
Due to customers	22	615,941	502,620
Due to other banks	23	41,081	52,814
Borrowings	24	101,378	113,268
Other liabilities	26	14,532	12,401
Provisions for liabilities and expenses	27	611	997
TOTAL LIABILITIES		**773,543**	**682,100**

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	110,059
Statutory reserves		5,529	4,257
Retained earnings		26,143	18,799
TOTAL EQUITY		**141,731**	**133,115**
TOTAL EQUITY AND LIABILITIES		**915,274**	**815,215**

Management Board of the Bank has authorised these financial statements on 28 February 2018, 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 2016	**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**
Allocation of the profit from 2017	-	1,271	(1,271)	-
Profit for the year	-	-	8,616	8,616
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	8,616	8,616
Balance as at 31 December 2017	**110,059**	**5,528**	**26,144**	**141,731**

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	2017	2016
Cash flow from operating activities			
Profit before income tax		9,721	7,111
Adjusted for:			
Depreciation and amortization	21, 22	1,664	1,531
Loss on disposal of property and equipment		-	7
Gain from sale of foreclosed assets		(282)	-
Net impairment losses and provisions		4,018	7,802
Fair value adjustment loss / (gain) of financial assets at fair value through statement of profit and loss		83	89
Income from dividends recognized through statement of comprehensive income		(21)	(19)
Cash flow from operating activities before changes in operating assets and liabilities		**15,183**	**16,521**
(Increase) in obligatory reserve with the Central Bank		(13,504)	(26,698)
Decrease in placements with banks		12,459	3,496
(Increase) in financing of customers		(73,384)	(68,347)
(Increase) in other assets		(2,668)	(4,088)
(Decrease)/increase in amounts due to banks		(11,733)	195
Increase in amounts due to customers		113,321	73,964
Increase in other liabilities		1,026	1,872
		40,700	(3,085)
Income tax paid		(791)	689

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

Mountain Visočica

CASH FLOW STATEMENT

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

NET CASH FROM / (USED IN) OPERATING ACTIVITIES		**39,909**	**(2,396)**
Investing activities			
Purchase of financial assets at fair value through profit and loss		-	(29)
Proceeds from sale of financial assets available for sale		2,252	20
Purchase of property and equipment and intangibles		(1,461)	(2,131)
Dividends received		21	19
NET CASH FROM / (USED IN) INVESTING ACTIVITIES		**812**	**(2,121)**
Financing activities			
Capital increase		-	30,000
Repayment of borrowings, net		(11,890)	(2,543)
NET CASH FROM / (USED IN) FINANCING ACTIVITIES		**(11,890)**	**27,457**
Net increase/ (decrease) in cash and cash equivalents		**28,831**	**22,940**
Cash and cash equivalents at the beginning of the year		**172,925**	**149,985**
Cash and cash equivalents at the end of the year	**14**	**201,756**	**172,925**

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

Fojnica plateau

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

1. GENERAL INFORMATION

Bosna Bank International d.d. (the "Bank") was registered on 19 October 2000 as the first bank in Bosnia and Herzegovina which operates on 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 2017		31 December 2016	
	Amount	%	Amount	%
Islamic Development Bank, Saudi Arabia	50,031	45.46	50,031	45.46
Abu Dhabi Islamic Bank, United Arab Emirates	30,014	27.27	30,014	27.27
Dubai Islamic Bank, United Arab Emirates	30,014	27.27	30,014	27.27
Total	**110,059**	**100.00**	**110,059**	**100.00**

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

Employees

As of 31 December 2017 the Bank employed 398 persons (2016: 371 employees).

1. General information (continued)

Supervisory board	
President	**Abdul Aziz Ahmed Al Muhairi**
Vice President	Abdulla Al Shahi
Member	Jahanzeb Burana until 29.05.2017
Member	Muhamed Umair since 29.05.2017
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 board	
President	**Mr. Husein ef. Kavazović**
Vice President	Dr. Nizam Al-Yaqoobi
Member	Dr. Osaid Kailani
Member	Dr. Šukrija Ramić
Member	Saleh Michael Gassner

Management board	
Director	**Amer Bukvić**
Executive director	Emir Ćehajić
Executive director	Emina Šišić

Secretary of the Bank Salih Purišević

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis for preparation and presentation of financial statements

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

These financial statements have been prepared in accordance with the historical cost principle, except for financial assets available for sale and financial assests at fair value through profit or loss which are measured at fair value.

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

- IFRS 15 "Revenue from contract with customers" (effective for annual periods beginning on or after 1 January 2018);
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018);
- Sale or transfer of funds in a transaction between an investor and an associated entity or a joint venture - Amendments to IFRS 10 and IAS 28 (effective for annual periods beginning on or after the date to be determined by the IASB);
- IFRS 16 "Leasing" (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 15 "Revenue from contracts with customers" (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 2 "Share Payments" (effective for annual periods beginning on or after 1 January 2018);
- Adoption to IFRS 9 "Financial Instruments", together with IFRS 4 "Insurance Contracts" - Amendments to IFRS 4 (effective for annual periods beginning on or after 1 January 2018 for companies designated for the option to be temporarily exempted from adoption (IFRS 9), or in the first time adoption to IFRS 9 for companies that have opted for the option of applying the overlay approach;
- Annual improvements to the IFRS - cycle 2014-2016 (effective for annual periods beginning on or after 1 January 2018 - for amendments to IFRS 1 and IAS 28);
- IFRIC 22 "Transactions in foreign currency and prepaid fees" (effective for annual periods beginning on or after 1 January 2018);
- Transfers of investment property - Amendments to IAS 40 (effective for annual periods beginning on or after 1 January 2018).

Prokoško lake

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Bank in the period of initial application, except for IFRS 9. Key features of IFRS 9 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.
- 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). Where there has been a 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.

The Bank has been finalizing methodology and tools for implementation of IFRS 9 and it is expected to be fully implemented by the end of first quarter of 2018. In terms of the process, the Bank engaged the external consultants to prepare the impact study, to develop the methodology and ECL model (including the staging criteria and processes, PD and LGD modelling) and to link the methodology and model with the appropriate IT solutions. Nevertheless, the final assessment of the impact will be estimated when the implementation is finalised. This will result in a debit to retained earnings as of 1 January 2018.

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.

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

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. 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 2017	31 December 2016
	BAM	BAM
USD	1.63081	1.85545
EUR	1.95583	1.95583

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 realized penalties are donated to charity.

2.4. Fee and 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.
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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 with in equity.

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

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 instruments

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8. Financial instruments (continued)

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 profit 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8. Financial instruments (continued)

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 profit or loss 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 profit or loss 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8. Financial instruments (continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8. Financial instruments (continued)

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).

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 classified as non-performing exposure.

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.
3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8. Financial instruments (continued)

Financial assets carried at amortized cost

The Bank assesses at each reporting 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 statement of comprehensive income

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.

2.9. Provisions

Provisions for legal claims are recognized when:

- it is more likely than not that an outflow of resources will be required to settle the obligation,
- the amount has been reliably estimated.

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.


River Una

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

	2017 %	2016 %
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%

Impairment

At each reporting 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11. Intangible assets

(a) Computer software and 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.

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 licenses	**5 years**

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

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.

Trnovačko lake on mountain Maglić

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Summary of significant accounting policies (continued)

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.

2.15. 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 and 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.

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.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

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%.

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.

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

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

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.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

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

31 December 2017	Gross exposure	Individual impairment	Collective impairment	Net exposure
Cash and balances with banks	201,759	-	(3)	201,756
Obligatory reserve with Central Bank B&H	73,877	-	-	73,877
Placements in other banks	26,526	-	-	26,526
Financial assets available for sale	30	-	(1)	29
Financial assets at fair value through profit or loss	414	-	-	414
Financing of customers	616,493	(18,834)	(9,051)	583,608
Other financial assets	2,522	(31)	(469)	2,022
Total	**916,621**	**(18,865)**	**(9,524)**	**888,232**
31 December 2016				
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**

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

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 2017								
Without rating	228,285	(3)	-	-	-	-	228,285	(3)
Performing assets	-	-	320,726	(1,839)	239,041	(988)	559,767	(2,827)
Non-performing assets	-	-	41,804	(18,933)	9,922	(6,125)	51,726	(25,058)
Total	**228,285**	**(3)**	**362,530**	**(20,772)**	**248,963**	**(7,113)**	**839,778**	**(27,888)**
Total (net)	**228,282**		**341,758**		**241,850**		**811,890**	
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**	

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 arrive at an 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 2017			
Portfolio risk provisions	567,308	(9,051)	558,257
Specific risk provisions	44,185	(18,834)	25,351
	611,493	**(27,885)**	**583,608**
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**

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

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

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,
- guarantors (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.

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 2017						
Performing	238,053	53,695	318,886	186,386	**556,939**	**240,081**
Non-performing	3,797	3,313	22,872	22,655	**26,669**	**25,968**
Net financing exposure	241,850	57,008	341,758	209,041	**583,608**	**266,049**
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**

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

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

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 2017			
Neither past due nor impaired	213,648	299,074	512,722
Past due but not impaired	25,392	21,651	47,043
Impaired, gross	9,924	41,804	51,726
Portfolio and specific risk provisions	(7,113)	(20,772)	(27,885)
	241,851	**341,757**	**583,608**
31 December 2016			
Neither past due nor impaired	172,899	259,670	432,569
Past due but not impaired	22,624	16,536	39,160
Impaired, gross	11,777	54,465	66,242
Portfolio and specific risk provisions	(7,027)	(16,316)	(23,343)
	200,273	**314,355**	**514,628**

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

Analysis by credit quality of financing to customers outstanding as of 31 December 2017 is as follows:

	Neither past due nor impaired	Due but not impaired	Impaired receivables, gross	Impairment provision – collective and individual	Total net
Corporate					
No delays	299,074	1,488	15,804	(6,144)	310,222
Up to 30 days	-	19,373	-	(135)	19,238
From 30 to 90 days	-	790	-	(40)	750
Over 90 days	-	-	26,000	(14,452)	11,548
Subtotal	**299,074**	**21,651**	**41,804**	**(20,772)**	**341,758**
Retail					
No delays	213,648	1,057	142	(733)	214,114
Up to 30 days	-	22,054	-	(201)	21,853
From 30 to 90 days	-	2,281	-	(132)	2,149
Over 90 days	-	-	9,782	(6,048)	3,734
Subtotal	**213,648**	**25,392**	**9,924**	**(7,114)**	**241,850**
Total	**512,722**	**47,043**	**51,728**	**(27,885)**	**583,608**

(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 past due nor impaired	Due but not impaired	Impaired receivables, gross	Impairment provision – collective and individual	Total net
Corporate					
No delays	259,670	2,309	24,206	(4,921)	281,264
Up to 30 days	-	11,808	771	(274)	12,305
From 30 to 90 days	-	2,419	1,370	(425)	3,364
Over 90 days	-	-	28,117	(10,695)	17,423
Subtotal	**259,670**	**16,536**	**54,464**	**(16,315)**	**314,355**
Retail					
No delays	172,899	1,001	1,068	(1,090)	173,878
Up to 30 days	-	18,693	180	(225)	18,638
From 30 to 90 days	-	2,930	106	(191)	2,845
Over 90 days	-	-	10,423	(5,521)	4,912
Subtotal	**172,899**	**22,624**	**11,777**	**(7,027)**	**200,273**
Total	**432,569**	**39,160**	**66,241**	**(23,342)**	**514,628**

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

The analysis of the credit quality of receivables for financing as per FBA regulatory classification is as follows:

	Retail	Corporate	Total	Impairment – collective and specific
31 December 2017				
A (no delays)	235,654	294,952	530,606	(2,676)
B (up 30 DPD)	3,160	30,221	33,381	(1,299)
C (31 to 90 DPD)	994	11,121	12,115	(3,442)
D (91 to 270 DPD)	3,625	19,221	22,846	(9,228)
E (over 270 DPD)	5,529	7,015	12,544	(11,240)
	248,962	**362,530**	**611,492**	**(27,885)**
31 December 2016				
A (no delays)	191,834	262,097	453,931	(3,489)
B (up 30 DPD)	4,777	21,667	26,444	(1,120)
C (31 to 90 DPD)	1,991	19,626	21,617	(2,698)
D (91 to 270 DPD)	4,336	25,514	29,850	(10,643)
E (over 270 DPD)	4,360	1,768	6,128	(5,392)
	207,299	**330,671**	**537,970**	**(23,342)**

The Bank monitors concentration of credit risk by industry segments and geographic locations.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

Concentration risk in the net balance sheet exposures by industry is as follows:

	2017		2016	
Concentration risk by industry sector	**BAM'000**	**%**	**BAM'000**	**%**
Trade	104,576	17.9%	111,908	21.7%
Production	104,391	17.9%	106,337	20.7%
Construction	30,072	5.1%	25,616	5.0%
Transport and communications	14,564	2.5%	14,122	2.7%
Agriculture, hunting, fishing	6,564	1.3%	6,542	1.3%
Property	13,530	2.3%	10,379	2.0%
Tourism	18,580	3.2%	2,187	0.4%
Education and other public services	5,693	0.9%	5,895	1.1%
Financial institutions	115	0.0%	26	0.0%
Other	43,673	7.5%	31,344	6.1%
Total corporate	**341,758**	**58.6%**	**314,355**	**61.1%**
Housing	148,268	25.4%	134,330	26.1%
Other	88,636	15.1%	61,392	11.9%
Entrepreneurs	4,946	0.8%	4,552	0.9%
Total retail	**241,850**	**41.3%**	**200,273**	**38.9%**
Total	**583,608**	**100.0%**	**514,628**	**100.0%**

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

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

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.

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 2017 and 2016 can be summarized as follows:

	Number of restructured financing of customers	Value
31 December 2017		
Corporate - restructured	7	3,717
Retail - restructured	4	116
Total	11	3,833
31 December 2016		
Corporate - restructured	18	16,468
Retail - restructured	10	423
Total	28	16,891

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

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.

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 2017 and 31 December 2016. 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 movements in foreign currencies.

As at 31 December 2017	BAM	EUR	USD	Other currencies	Total
Financial assets					
Cash and balances with banks	150,200	34,014	12,113	5,429	201,756
Obligatory reserve with CBBH	73,877	-	-	-	73,877
Placements with other banks	47	16,628	9,851	-	26,526
Financial assets available for Sale	28	-	1	-	29
Financial assets at fair value through profit or loss	414	-	-	-	414
Financing of customers	583,608	-	-	-	583,608
Other financial assets	1,852	169	-	1	2,022
Total financial assets	**810,026**	**50,811**	**21,965**	**5,430**	**888,232**
Financial liabilities					
Due to banks	-	41,081	-	-	41,081
Due to customers	426,102	163,037	21,748	5,054	615,941
Borrowings	3,586	97,792	-	-	101,378
Other financial liabilities	8,064	4,933	63	1	13,061
Total financial liabilities	**437,752**	**306,843**	**21,811**	**5,055**	**771,461**
Net foreign exchange position	**372,274**	**(256,032)**	**154**	**375**	**116,771**

3. FINANCIAL RISK MANAGEMENT (continued)

3.4. Foreign exchange risk (continued)

As at 31 December 2017	BAM	EUR	USD	Other currencies	Total
Assets					
Cash and balances with banks	116,769	38,902	12,376	4,878	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	2,294	105	-	1	2,400
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	97,791	-	-	113,268
Other financial liabilities	6,313	4,940	75	1	11,329
Total financial liabilities	**348,640**	**309,072**	**17,894**	**4,425**	**680,031**
Net foreign exchange position	**345,998**	**(236,810)**	**164**	**454**	**109,806**

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 movements, the Bank is not exposed to any other significant currency risk.

3. FINANCIAL RISK MANAGEMENT (continued)

3.4. Foreign exchange risk (continued)

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	
	2017	2016
Change in profit	**15**	**16**

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 year end. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing of maturity dates or changes in profit margin.

Trebinje

(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 2017	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	62,199	139,557	-	-	-	-	201,756	139,557
Obligatory reserve with CBBH	-	73,877	-	-	-	-	73,877	73,877
Placements with other banks	-	20,659	5,867	-	-	-	26,526	26,526
Financial assets available for sale	29	-	-	-	-	-	29	-
Financial assets at fair value through profit/ loss	414	-	-	-	-	-	414	-
Financing of customers	26,160	41,476	33,365	141,338	239,297	101,972	583,608	-
Other financial assets	2,022	-	-	-	-	-	2,022	-
Total financial assets	**90,824**	**275,569**	**39,232**	**141,338**	**239,297**	**101,972**	**888,232**	**239,960**
Financial liabilities								
Due to banks	-	21,518	-	5	19,558	-	41,081	41,081
Due to customers	268,361	19,820	7,503	146,826	173,316	115	615,941	347,579
Borrowings	100,814	-	98	98	368	-	101,378	565
Other financial liabilities	13,061	-	-	-	-	-	13,061	-
Total financial liabilities	**382,236**	**41,338**	**7,601**	**146,929**	**193,242**	**115**	**771,461**	**389,225**
Unadjusted gap	**(291,412)**	**234,231**	**31,631**	**(5,591)**	**46,055**	**101,857**	**116,771**	**(149,265)**

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)**

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

3. FINANCIAL RISK MANAGEMENT (continued)

3.5. Profit margin risk (continued)

Sensitivity analysis - profit margin 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 194 thousand (2016: BAM 190 thousand) due to higher / lower cost of profit margins.

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 2017 and 2016 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.

3. FINANCIAL RISK MANAGEMENT (continued)

3.6 Liquidity risk (continued)

As at 31 December 2017	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	201,759	-	-	-	-	201,759
Obligatory reserve with CBBH	73,877	-	-	-	-	73,877
Placements with other banks	20,659	5,867	-	-	-	26,526
Financial assets available for sale	29	-	-	-	-	29
Financial assets at fair value	414	-	-	-	-	414
Financing of customers	65,459	35,309	151,180	256,303	103,242	611,493
Other financial assets	2,522	-	-	-	-	2,522
Total financial assets	**364,719**	**41,176**	**151,180**	**256,303**	**103,242**	**916,620**
Financial liabilities						
Due to banks	21,518	-	5	19,558	-	41,081
Due to customers	282,214	7,562	148,260	174,690	3,215	615,941
Borrowings	-	98	98	101,182	-	101,378
Other financial liabilities	13,061	-	-	-	-	13,061
Total financial liabilities	**316,793**	**7,660**	**148,363**	**295,430**	**3,215**	**771,461**
Commitments and contingencies	79,420	-	-	-	-	79,420
Maturity gap	**(31,494)**	**33,516**	**2,817**	**(39,127)**	**100,027**	**65,739**

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

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	172,930	-	-	-	-	172,930
Obligatory reserve with CBBH	60,373	-	-	-	-	60,373
Placements with other banks	33,421	-	5,566	-	-	38,987
Financial assets available for sale	29	-	-	-	-	29
Financial assets at fair value	497	-	-	-	-	497
Financing of customers	56,154	27,121	136,916	227,352	90,427	537,970
Other financial assets	2,704	-	-	-	-	2,704
Total financial assets	**326,108**	**27,121**	**142,482**	**227,352**	**90,427**	**813,490**
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
Commitments and contingencies	**77,898**	**-**	**-**	**-**	**-**	**77,898**
Maturity gap	**(43,749)**	**4,079**	**18,899**	**96,134**	**(19,802)**	**55,561**

Nišić plateau

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

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 2017	Financing of customers and receivables	At fair value through profit and loss	Available-for-sale assets	Total
Assets				
Cash and balances with banks	201,756	-	-	201,756
Cash and the balances with the Central Bank of Bosnia and Herzegovina	73,877	-	-	73,877
Placements with banks	26,526	-	-	26,526
Financial assets available for sale	-	-	29	29
Financial assets at fair value through profit or loss	-	414	-	414
Financing of customers	583,608	-	-	583,608
Other financial assets	2,022	-	-	2,022
	887,789	**414**	**29**	**888,232**

3. FINANCIAL RISK MANAGEMENT (continued)

3.7. Presentation of financial statements by category (continued)

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**

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

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 2017.

	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	-	414	-	414
Total assets	-	443	-	443

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

3. FINANCIAL RISK MANAGEMENT (continued)

3.8. Fair value estimation (continued)

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.

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

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 2017 and 2016, prepared in accordance with the FBA regulations.

	2017	2016
The Bank's net capital in accordance with FBA regulations		
Basic capital	131,449	124,960
Additional capital	8,267	7,310
Reserves for losses from loans by regulation requirements	(22,126)	(24,245)
Capital, net	**117,590**	**108,025**
Total risk of weighted assets and credit equivalents	625,584	555,601
Total weighted operating risk	35,786	29,180
Total risk weighted assets and off-balance items	**661,370**	**584,781**
Capital adequacy ratio as at 31 December	**17.8%**	**18.5%**

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

The Bank's Management believes that in the course of 2017 and 2016, the Bank was fully aligned with the requirements for capital management in accordance with the requirements of internal regulations and regulations prescribed by the Agency.

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.

The Bank regularly reviews its financing portfolio to assess impairment. In determining whether an impairment loss should be recorded in statement of comprehensive income for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financings before the decrease can be identified with an individual financing in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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)

River Vrbas

5. NET INCOME FROM FINANCING AND INVESTMENTS

	2017	2016
Income from corporate sector financing (Musharaka)	17,159	17,700
Income from retail sector financing (Musharaka, Ijara)	13,428	12,040
Income from operations with other banks (Murabaha, Wakala)	943	862
Income from obligatory reserve		-
Income from financing and investments	31,530	30,602
Expenses from amounts due to retail customers (Musharaka)	(2,907)	(3,059)
Expenses from amounts due to corporate customers (Musharaka)	(1,721)	(1,863)
Expenses from amounts due to banks(Murabaha, Wakala)	(638)	(631)
Expenses from amounts due to customers and banks	(5,266)	(5,553)
Total	**26,264**	**25,049**

6. NET FEE AND COMMISSION INCOME

	2017	2016
Fees from payment transactions	4,034	3,472
Fees from foreign exchange transactions	1,470	1,299
Guarantees and letters of credit issued	1,066	1,026
Commission income - foreign exchange customer desk transactions	892	419
Other banking services	4,300	3,587
Fee and commission income	11,762	9,803
Fee expense from card and other bank activities	(1,124)	(952)
Fees to the FBA and foreign correspondent banks	(785)	(707)
Fees from payment transactions	(464)	(298)
Commission expenses related to foreign currency trading	(153)	(56)
Fee and commission expense	(2,526)	(2,013)
Total	**9,236**	**7,790**

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

7. NET FINANCIAL GAINS

	2017	2016
Foreign exchange gains, net	1,078	882
(Loss)/ gain on assets at fair value through profit or loss, net (Note 18)	(93)	(89)
Dividend income	21	19
Total	**1,006**	**812**

8. PERSONNEL EXPENSES

	2017	2016
Salaries	6,923	5,766
Taxes and contributions related to salaries	4,223	3,547
Other employee expenses	2,475	2,479
Total	**13,621**	**11,792**

The average number of employees for the year ended 31 December 2017 was 391 (31 December 2016: 359). Personnel expenses include BAM 2,306 thousand (2016: BAM 1,940 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

	2017	2016
Deposit insurance	1,249	1,073
Office materials and costs of maintenance	1,232	1,103
Rent	962	933
Security	852	813
Marketing and advertising	742	693
Professional services	721	837
Telecommunications	642	559
Energy, postage and communications	279	227
Temporary service contracts	268	217
Utilities	148	181
Supervisory board and shareholders meetings	138	259
Membership fees	54	84
Other expenses	1,392	922
Total	**8,679**	**7,900**

10. NET IMPAIRMENT LOSSES AND PROVISIONS

	2017	2016
Financing of customers (Note 19)	4,596	7,749
Other assets (Note 20)	198	164
Cash and cash equivalents (Note 14)	(2)	5
Placements with banks (Note 16)	(2)	(2)
Provisions for contingent liabilities and commitments (Note 27)	(386)	(114)
Total	**4,404**	**7,802**

11. OTHER OPERATING INCOME

	2017	2016
Income from consulting services rendered	164	2,110
Collected written-off receivables from customer financing – principal	46	65
Other operating income	1,373	311
Total	**1,583**	**2,486**

Within other operating income during 2017, the Bank recognized profit from early repayment of liabilities in amount of BAM 782 thousand.

12. INCOME TAX EXPENSE

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

	2017	2016
Current tax	1,105	753
Deferred tax	-	-
Total income tax expense	**1,105**	**753**

Reconciliation of the accounting profit and income tax expense

	2017	2016
Profit before tax	9,720	7,111
Income tax at the rate of 10%	*972*	*711*
Adjustments:		
- non-taxable income	(2)	(2)
- non-deductible expenses	135	44
Income tax at the rate of 10%	**1,105**	**753**
Effective income tax rate (%)	**11.36**	**10.59**

As at 31 December 2017, there are no temporary differences which may give rise to deferred taxes.

13. CASH AND BALANCES WITH BANKS

	31 December 2017	31 December 2016
Current accounts with the Central Bank of Bosnia and Herzegovina	139,576	106,628
Current accounts with other banks	43,202	49,713
Cash on hand	18,981	16,589
Provisions for impairment (Note 10)	(3)	(5)
Total	**201,756**	**172,925**

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 2017	31 December 2016
A1	378	6,344
A2	-	10,220
A3	-	-
BA1	24	-
BA2	-	-
BAA1	20,640	-
BAA2	-	-
B3	-	226
CAA1	-	-
CAA3	-	-
BB (Standard Poor's)	2	64
BBB (Fitch)	21,565	32,107
BB (Fitch)	1	7
B (Fitch)	2	-
Not rated	590	745
	43,202	**49,713**

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 2017).

14. OBLIGATORY RESERVE WITH THE CENTRAL BANK

The obligatory reserve represents 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts are given in BAM '000, unless otherwise stated)

15. PLACEMENTS WITH BANKS

	31 December 2017	31 December 2016
Placements with banks – gross	26,526	38,987
Provisions for impairment	-	(2)
Total	**26,526**	**38,985**

As at 31 December 2017 profit rates on placements in EUR were between 0.75% and 1.30% p.a. (31 December 2016 – profit rates on placements in EUR were between 0.5% and 3.5% p.a.).

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

	2017	2016
Balance as at 1 January	2	-
Net (decrease)/increase in provisions (Note 10)	(2)	2
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 2017	31 December 2016
BBB (Fitch Ratings)	26,526	38,962
Not rated	-	25
	26,526	**38,987**

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

16. FINANCIAL ASSETS AVAILABLE FOR SALE

	31 December 2017	31 December 2016
Investments in related parties	10	10
Other investments	19	19
Total	**29**	**29**

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

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2017	31 December 2016
Listed equity securities		
Securities – domestic companies	414	497
Total	**414**	**497**

The Bank incurred a net fair value loss on this portfolio of BAM 83 thousand (2016: net loss of BAM 89 thousand, Note 7). Gain from dividends received from securities listed on a stock exchange amounted to BAM 21 thousand (2016: 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 414 thousand were classified as B3 (2016 – Bosnia and Herzegovina B3 – BAM 497 thousand).

River Pliva, Jajce

18. FINANCING OF CUSTOMERS

	31 December 2017	31 December 2016
Corporate		
- short term	116,186	95,601
- long term	246,344	235,069
	362,530	**330,671**
Retail		
- short term	9,720	9,555
- long term	239,243	197,744
	248,963	**207,299**
Total gross financing of customers	611,493	537,970
Impairment allowance	(27,884)	(23,342)
Net financing of customers	**583,608**	**514,628**

Financing of customers is related to customers in Bosnia and Herzegovina.

The movements in impairment allowances of financing of customers are summarized as follows:

	2017	2016
Balance as at 1 January	23,342	16,884
Net increase in provisions (Note 10)	4,596	7,749
Recoveries – repossessed collaterals	-	(1,203)
Write-offs	(54)	(88)
Balance as at 31 December	**27,884**	**23,342**

18. FINANCING OF CUSTOMERS (continued)

Profit rates for financing of customers, given as at 31 December 2017 and 2016 are summarized as follows:

	31 December 2017		31 December 2016	
	BAM '000	Annual profit rate	BAM '000	Annual profit rate
Companies	362,530	1.50%-14.675%	330,671	1.50%-14.675%
Citizens	248,963	1.50%-12.35%	207,299	1.50%-12.35%
Total	**611,493**		**537,970**	

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

19. OTHER ASSETS

	31 December 2017	31 December 2016
Receivables from other banks in relation to card operations	345	145
Fee receivables	229	167
Receivables from the State	944	62
Other financial assets	1,004	2,330
Provision for impairment	(499)	(305)
Other financial assets	2,023	2,399
Acquired tangible assets	5,566	3,929
Prepaid expenses	1,056	671
Provisions for impairment	(14)	(9)
Other non-financial assets	**6,608**	**4,591**
Total	**8,631**	**6,990**

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

	2017	2016
Balance as at 1 January	315	151
Net increase in provisions (Note 10)	**198**	**164**
Balance at 31 December	**513**	**315**

Acquired tangible assets relate to repossessed collaterals. During 2017 the Bank repossessed collaterals in the amount of BAM 2,638 and has sold collaterals in the amount of BAM 4,931 thousand (2016: BAM 3,018 thousand).

20. PROPERTY AND EQUIPMENT

	Land and buildings	Computers	Furniture and equipment	Assets in progress	Leasehold improvements	Total
Cost						
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**
1 January 2017	**16,807**	**2,887**	**6,920**	**469**	**1,423**	**28,506**
Additions	-	-	-	1,461	-	1,461
Transfers	508	548	493	(1,559)	10	-
Transfer – intangible assets	-	-	-	(291)	-	(291)
Disposals	-	(496)	(29)	-	-	(525)
31 December 2017	**17,315**	**2,939**	**7,384**	**80**	**1,433**	**29,151**

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

20. PROPERTY AND EQUIPMENT (continued)

Accumulated depreciation						
1 January 2016	790	1,787	3,676	-	1,273	7,526
Depreciation charge	163	301	626	-	35	1,125
Disposals	-	(100)	(35)	-	-	(135)
31 December 2016	953	1,988	4,267	-	1,308	8,516
1 January 2017	953	1,988	4,267	-	1,308	8,516
Depreciation charge	224	309	670	-	40	1,243
Disposals	-	(343)	(30)	-	-	(373)
31 December 2017	1,177	1,954	4,907	-	1,348	9,386
Net book value						
31 December 2017	**16,138**	**985**	**2,477**	**80**	**85**	**19,765**
31 December 2016	**15,854**	**899**	**2,653**	**469**	**115**	**19,990**

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

21. INTANGIBLE ASSETS

	Software and licenses	Assets in progress	Total
Cost			
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**
1 January 2017	**3,005**	**5**	**3,010**
Transfers from property and equipment	-	291	291
Transfers	100	(100)	-
31 December 2017	**3,105**	**196**	**3,301**
Accumulated amortization			
1 January 2016	**1,805**	**-**	**1,805**
Amortization charge	407	-	407
31 December 2016	**2,212**	**-**	**2,212**
1 January 2017	**2,212**	**-**	**2,212**
Amortization charge	421	-	421
31 December 2017	**2,633**	**-**	**2,633**
Net book value			
31 December 2017	**472**	**196**	**668**
31 December 2016	**793**	**5**	**798**

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

Mountain stream of Šćena near Fojnica

22. DUE TO CUSTOMERS

	31 December 2017	31 December 2016
Companies:		
Current/settlement accounts	152,412	137,407
Term deposits	189,519	127,604
Total companies	**341,931**	**265,011**
Citizens		
Current/settlement accounts	115,203	97,121
Term deposits	158,807	140,488
Total citizens	**274,010**	**237,609**
Total	**615,941**	**502,620**

The average profit margin charged on term deposits in 2017 and 2016 was 1.62% and 1.97% respectively.
Accrued, not paid, profit margin as of 31 December 2017 amounted to BAM 2,207 thousand (2016: BAM 2,145 thousand).

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

23. DUE TO OTHER BANKS

	31 December 2017	31 December 2016
Islamic Development Bank, Saudi Arabia	19,563	19,562
Kuveyt Turk Katlim Bankasi a.s., Istanbul, Republic of Turkey	9,781	12,714
Turkiye Finans Katilim Bankasi a.s., Republic of Turkey	9,781	10,758
Albaraka Turk Participation Bank Istanbul, Republic of Turkey	1,956	9,780
Total	**41,081**	**52,814**

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 04 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 04 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 04 January 2016 with an annual profit margin of 0.50%.

Accrued, and not paid profit margin as of 31 December 2017 for these deposits amounted to BAM 8 thousand (2016: BAM 6 thousand)

24. BORROWINGS

	31 December 2017	31 December 2016
T.C.Ziraat Bankasi, Republic of Turkey	97,792	97,792
Ministry of finance Federation of Bosnia and Herzegovina (Foundation ODRAZ)	-	14,347
Ministry of finance Federation of Bosnia and Herzegovina (IFAD)	3,586	1,129
Total	**101,378**	**113,268**

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 +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.

The Bank made an early return of funds under a contract with the Federal Ministry of Finance and the Foundation for Sustainable Development - the World Bank Project Implementation Unit. Funds in the amount of BAM 10,715,121.29 were returned on 01.09.2017. with discount of BAM 781,789.97

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

25. NET DEBT RECONCILIATION

The table below presents an analysis of our debt and the movement of liabilities for received loans during 2016 and 2017. Debt items are those presented in the financial activities of the cash flow statement.

	Liabilities from financial activities	
	Received loans	Total
Net debt as at 31 December 2015	115,811	115,811
Net repayments	(2,543)	(2,543)
Net debt as at 31 December 2016	113,268	113,268
Net repayments	(11,890)	(11,890)
Net debt as at 31 December 2017	101,378	101,378

26. OTHER LIABILITIES

	31 December 2017	31 December 2016
Managed funds	4,925	4,734
Unallocated payments received	3,095	1,918
Liabilities to Ministry of economy of Canton Sarajevo	2,264	1,930
Liabilities to suppliers	1,093	727
Other financial liabilities – inactive accounts	494	586
Income tax liability	356	65
Liabilities to shareholders of liquidated ICB Bank, FBiH	341	339
Interbank transactions – Central Bank and Master card	312	852
Liabilities for donations (Charity fund)	181	178
Other financial liabilities	**13,061**	**11,329**
Liabilities for rebates – accrued amounts	869	328
Deferred income from other financing operations	436	584
Deferred fee income from guarantees	166	160
Other non-financial liabilities	**1,471**	**1,072**
Total	**14,532**	**12,401**

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 4,925 thousand (31 December 2016: BAM 4,610 thousand) are not yet placed.

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

26. OTHER LIABILITIES (continued)

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. The Bank disbursed these funds to the designated parties based on instructions received from the donors.

	31 December 2017	31 December 2016
Funds received		
IDB	5,426	5,538
Liabilities to Government – Ministry of Bosnian Homeland War veterans (FBiH)	4,465	4,393
ZiraatBank BH d.d. Sarajevo	1,472	2,216
Foundation Al Mactoum	395	390
Endowment fund	1	1
Total	**11,759**	**12,538**
Funds placed		
Retail clients -placed funds	3,882	4,009
Corporate clients – placed funds	2,952	3,795
Total	**6,834**	**7,804**
Difference in managed funds	**4,925**	**4,734**

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 2017	31 December 2016
Provisions for off-balance liabilities	330	805
Provisions for severance and unused vacation days	281	192
Total	**611**	**997**

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 2016	847	264	1,111
Decrease (Note 10)	(42)	(72)	(114)
Balance as at 31 December 2016	**805**	**192**	**997**
Balance as at 1 January 2017	805	192	997
Decrease (Note 10)	(475)	89	(386)
Balance as at 31 December 2017	**330**	**281**	**611**

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

28. SHARE CAPITAL

The Bank's ownership structure is as follows:

	31 December 2017			31 December 2016		
	Number of shares	Amount	%	Number of shares	Amount	%
Shareholders						
Islamic Development Bank, Saudi Arabia	593,487	50,031	45.46	593,487	50,031	45.46
Abu Dhabi Islamic Bank, UAE	356,040	30,014	27.27	356,040	30,014	27.27
Dubai Islamic Bank, UAE	356,040	30,014	27.27	356,040	30,014	27.27
Total	**1,305,567**	**110,059**	**100.00**	**1,305,567**	**110,059**	**100.00**

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

29. COMMITMENTS AND CONTINGENCIES

	31 December 2017	31 December 2016
Performance guarantees	35,667	36,688
Unused financing lines	31,631	26,833
Payment guarantees	11,785	10,394
Letters of credit	325	3,971
Cheques	12	12
Total	**79,420**	**77,898**

Operating lease commitments

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

	No later than 1 year	1-5 years	Over 5 years	Total
As at 31 December 2017				
Operating lease commitments	809	1,460	111	2,380
Total	**809**	**1,460**	**111**	**2,380**
As at 31 December 2016				
Operating lease commitments	770	1,586	16	2,372
Total	**770**	**1,586**	**16**	**2,372**

30. 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 2017		31 December 2016	
	Receivables	Payables	Receivables	Payables
Abu Dhabi Islamic Bank, UAE - Shareholder	378	-	10,157	-
BBI Real Estate d.o.o. - other	3,491	5,572	744	5,387
Islamic Development Bank, Saudi Arabia – Shareholder	-	19,584	-	19,591
Total	**3,869**	**25,156**	**10,901**	**24,978**

	2017		2016	
	Income	Expense	Income	Expense
BBI Real Estate d.o.o. - other	20	332	23	445
Islamic Development Bank, Saudi Arabia – Shareholder	68	374	-	375
Abu Dhabi Islamic Bank, UAE - Shareholder	80	-	80	-
Total	**168**	**706**	**103**	**820**

Directors and executives remuneration

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

30. RELATED-PARTY TRANSACTIONS (continued)

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

	2017	2016
Salaries	910	867
Taxes and contributions on salaries	702	610
Bonuses	256	194
Total	**1,868**	**1,671**

The compensations for the members of Supervisory board, Sharia board and Audit committee in 2017 amounted to BAM 178 thousand (2016: BAM 215 thousand) and represent the net amount.

31. EVENTS AFTER THE REPORTING PERIOD

There were no material events after the reporting date and until the date of approval of these financial statements requiring adjustment or disclosure in the financial statements.

BRANCHES

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Bosna Bank International

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