One Bank One UniCredit

2017

Annual Report

Banking that matters. | UniCredit Bank Banja Luka

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One Bank, One UniCredit.

We are a simple, successful Pan European Commercial Bank, with a fully plugged-in CIB, delivering a unique Western, Central and Eastern European network to our extensive franchise of 25 million clients.
Our strategy is long-term. We are transforming the Group through decisive actions to lay the groundwork for the future, changing the way we work to anticipate our clients' medium-term evolution. Everything we do is designed to make UniCredit a true Pan European Winner.

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Message from the President of the Bank's Management Board

"I believe that the good result was mostly contributed by the positive work and team energy that has become the trademark of this Bank."

Gordan Pehar
President of the Bank's Management Board

Dear Clients, Shareholders, Employees and Partners...

Another successful business year is behind us, in which we were able to justify the role of the market leader and continue the intensive growth trend at the same time.

Thus, the Bank ended the business year of 2017 with the results above the planned values and the market average, with the profit of BAM 25.8 million, the assets of BAM 1.48 billion and capital of BAM 201 million, whereby we confirmed our position of the systemically important financial institution on the market of Republic of Srpska and Bosnia and Herzegovina.

Our strong commitment to maintain the long term stability and sustainability is reflected through the strong capital position of the Bank (Capital Adequacy Ratio 19.1%), loan portfolio with low NPE ratio (7.5%) and high NPE coverage ratio (89.4%), and the well-balanced Balance Sheet and adequate level of liquidity at every moment. The continuous growth of lending activities towards private individuals and legal entities also contributed to the good result (gross loans +4.6% y/y), as well as the growth of customer deposits (+9.3% y/y).

Additionally, in 2017, the Bank continued even more strongly with the application of new technologies and directing the customers from traditional to digital sales channels, so following the latest trends in the domain of digital business, we increased the number of active users of mobile banking service (m-bank), by three times y/y. At the same time, we continued with the improvement of the service quality in the branches by deploying the queue management system (q-management), in order to manage the time and the rows better, and thus affecting the growth of customer satisfaction.

In addition to all of the above stated, I believe that the good result was mostly contributed by the positive work and team energy that has become the trademark of this Bank and by the motivated and competent employees with a high sense of commitment to work and belonging to the Bank and UniCredit Group, which is why our Bank, according to the results of the Employees Satisfaction Survey, occupied the leading position in its segment according to the people survey results. The factors which influenced these indicators are: strong corporate culture, open mutual communication, fostering job changes within the Bank, people development programs, common approach to evaluation and continuous commitment of the top management to advancement of employees.

In 2017, we also ended the formal completion of the first line management team, so we were ready to enter the new business year in terms of staff, as well. Appointments at managerial positions in the business areas of Retail, Global Banking Services, Internal Audit and Compliance, which were completed last year, confirm again that we are able to develop the quality employees and managers within our structure, thus promoting the proactivity and mobility, both among different organizational units, and within the Group, to which we belong.

The affiliation with UniCredit provides us constantly with new opportunities for products and services development. Through the platform for sharing of ideas and best practises, we got the possibility of accessing the best practises from other banks of our Group, so in 2017, we successfully replicated several new products in the Retail area.

With the continuously stable business activity, and refreshed in terms of staff, in 2017, we were also dedicated to the other service quality improvements by introducing the New Service Model in the work of Retail, and by shortening the time for loan disbursement, as well as adjusting the appearance and functionality of our branches to the standards of the branches of the future ...

New programs and partnerships also marked the year behind us. Thus, in cooperation with the faculties, we launched the First Big Chance program and thereby gave the opportunity to the talented students to apply for professional paid internship at the Bank, with the possibility of employment, which resulted in a great interest of the students in the program and the employment of several of them finally.

At the same time, we also realized the first big donation activity within the Really Good m-bank program and built and donated for the use a children's inclusive playground in one of the largest settlements in Banja Luka.

Nevertheless, there are always new opportunities for improvement... Precisely by listening to you, our Clients and Employees in all business areas, we are aware that we need to continue even more strongly the application of best practises, with the reviewing, simplifying and upgrading of the existing processes and with more time for customers.

Automation and digitalization are our future, as well as the willingness to change and work in multifunctional teams, therefore, we will strive to be the first in development and innovations, as we are the first according to the results. And all this with the constant encouragement to the employees' development and positive team energy and spirit.

In 2018, I want us to continue with the fostering of high business and moral standards, the culture of open and transparent communication, and, with the positive energy in an excellent working environment, to continue breaking sales records. On that path of success, I want us to always stand by our five fundamentals: Customers First, People Development, Cooperation and Synergies, Risk Management, Execution and Discipline, which are the foundation for everything we do and need to do. Those are the pillars of the common culture "One Bank - One UniCredit", our biggest advantage compared to other banks and the thing that has already made us recognizable on the market.

Therefore, on behalf of the Bank's Management Board, I would like to use the opportunity to thank our Clients, Shareholders, Business Partners and Employees for the trust and the unselfish commitment, with the optimistic and strong promise that a successful business result will not be lacking in the year ahead of us, either.

Yours sincerely,

Gordan Pehar
President of the Bank's Management Board

Banking that matters.

In this era of unprecedented change customers are looking for companies they can trust and that can play a tangible positive role in their everyday lives. UniCredit has a simple and successful Pan European Commercial banking model delivering relevant solutions to the real needs and wants of today’s customers.

About UniCredit Group

UniCredit is a simple successful Pan European Commercial Bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to extensive client franchise: 25 million clients.

UniCredit offer local expertise as well as international reach. We accompany and support 25 million clients globally, providing them with unparalleled access to our leading banks in 14 core markets as well as to an another 18 countries worldwide.

European banking network of UniCredit includes Italy, Germany, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Slovakia, Slovenia, Serbia and Turkey.

Fundamental values and vision

UniCredit's business is based on the "Five Fundamental Values" and the vision "One Bank, one UniCredit".

"Our top priority, every minute of the day, is to serve our Customers the very best we can (**Customers First**). To do this, we will rely on the quality and commitment of our people (**People Development**), and our ability to cooperate and generate synergies as One Bank, One UniCredit (**Cooperation and Synergies**), and we will take the right kind of risk (**Risk Management**), while being very disciplined in executing our strategy (**Execution and Discipline**).

The Strategy for the Upcoming Period

In persistently challenging overall economic environment, the Group's strategy in achieving the key strategic initiative for Central and Eastern Europe will be as follows:

- capital strengthening and its optimization
- further portfolio quality improvement
- the transformation of our operating business model, strengthening the focus on the customer, with simplification of our products and services
- strengthening and maximizing the values based on the strategy of customer relationship
- establishment of a simple, but strong management structures, in order to ensure consistency in the efficiency and accountability throughout the Group.

The strategy of our Bank in the coming years will be directed to maintaining and strengthening the capital base and sustainability, improving and adapting the products and services to the modern needs of the clients, and in the first place to the transformation of traditional service channels to digital ones, and preservation of the Bank's position as the important financial institution on the market at which we operate.

Strengthen and optimise capital.

Following a € 13 billion capital increase, we confirmed a 2019 fully loaded CET1 ratio target above 12.5 percent and an organic capital generation that will fully absorb the expected regulatory impacts: our capital position is stronger and in line with best in class G-SIFIs.

Macroeconomic Overview

After a highly challenging political and economic year of 2016, the global environment recorded the favourable trends in 2017 In the Central and Eastern Europe region, growth has gained further impetus, together with the growth of exports, loan recovery and strong domestic demand. Actually, 2017 could be considered the best year for the global economy since the financial crisis.

In 2017 Standard and Poor's agency confirmed Bosnia and Herzegovina credit rating B with the stable outlook. The rating is based on the fact that the fiscal deficit is sustainable, despite the delay of funds from the Extended Arrangement with the International Monetary Fund, since the country's economy recorded the moderate growth.

The growth of the foreign and domestic demand for BH in 2017 also meant the significant growth of the economic activities. The growth prospects were subject to several adjustments (with significant adjustments by the BH Statistics Agency for GDP growth for 2016 from 2.1% to 3%), but real GDP growth could reach 2.8% in 2017, which is slightly below the initially planned considering the poor performance of the first two quarters of 2017, partly because of unfavourable weather conditions and a decrease in electricity production. The accelerated growth is expected in the second half of the year, and consequently further strengthening of economy as well.

Export was the main driver of growth in 2017 Exports of goods recorded double-digit growth rates already at the beginning of the year, while in December the realized growth rate was +17.4% compared to the end of 2016 In the same period, exports to EU countries amounted to BAM 7.9 billion, which is by 16.8% more than in the same period of 2016 Exports to CEFTA countries amounted to BAM 1 billion and 790 million, which is by 28.5% more than in the same period of 2016 The increase was recorded in almost all industrial sectors, with growth of electricity exports by +44% and the processing industry by +16%.

While the previous years were marked by deflationary trends, primarily conditioned by the prices of imported energy products, the consumer price index in 2017 reached positive values of 1.3% annually, which is partly the result of the increased energy price.

Positive trends on the labour market continued. The unemployment rate decreased, with the decrease in the total number of active population, partly as a result of migrations. Positive trends reflected on the increase in the employment rate, the increase in net salaries and the increase in gross salaries. After a long time, the unemployment rate fell below 40%, but it is still at an unacceptably high level. Unemployment rate according to the ILO methodology published in 2017 amounted to 20.5%. Real disposable income increased on the basis of improvement of the labour market and increase in salaries.

Thanks to the growth of the disposable income and low consumer prices, personal consumption was accelerated significantly. The increased private consumption is also visible in the increased imports. Imports from the EU countries amounted to BAM 11.1 billion, which is by 10.7% more than in the same period of the previous year, while imports from CEFTA countries amounted to BAM 2.3 billion, which is by 12.1% more than in the same period of the previous year.

Current account deficit will probably increase considering the increasing domestic demand, and taking into account high dependence on the import and forecasted acceleration of the individual spending and growth of investments. It is expected that the deficit, after decrease down to 5% of GDP for 2017, will increase in the following year after the additional strengthening of import. The deficit would have been bigger in 2017, but it was mitigated by a significant increase in transfers from abroad and strong increase of tourism in 2017 Tourism was positioned as a significant sector in BH following the increased number of arrivals and overnight stays in the country, with the positive outlook for further growth.

Nevertheless, an important factor of economic growth, investment activity, remained weak, as evidenced by a 1.4% decline in the building construction index in the first nine months of 2017, while the construction of residential buildings grew by 4% annually. Thus, the reduction was recorded on civil engineering projects, which largely depended on infrastructure projects, which are mostly financed by foreign funds.

Although the Extended Arrangement was approved by the International Monetary Fund in 2016, the payouts were suspended during 2017 because of omissions in the agreed priorities and the stipulated deadlines. During their latest mission in December 2017, the International Monetary Fund and the authorities of Bosnia and Herzegovina have reached an agreement to recommend the completion of the first revision within the program, which was done in February 2018, when the International Monetary Fund approved the payment of funds amounting to SDR 63.4 million or EUR 74.6 million.

The total public debt as a percentage of the estimated GDP in the first half of 2017 was approximately 37%, with regard to GDP growth and the absence of foreign funds primarily from the International Monetary Fund. In the absence of these funds, and in order to maintain the fiscal balance, the Government of Republika Srpska and the Federation of Bosnia and Herzegovina had new issues of treasury bills during 2017 in the total amount of BAM 403 million (out of which Republika Srpska, BAM 143 million, the Federation of Bosnia and Herzegovina, BAM 260 million) and BAM 253 million of bonds (out of which Republika Srpska, BAM 223 million, the Federation of Bosnia and Herzegovina BAM 30 million).

Macroeconomic Expectations for 2018

It is expected that strong export and personal spending will remain the key growth drivers in Bosnia and Herzegovina in 2018. The revival of investments, which are mainly investment projects financed from abroad, should be supported by the announced envisaged payments of the funds by the International Monetary Fund.

The potential risks for a generally favourable forecast are mainly related to the fragile political stability of the country and the fact that 2018 is the election year, which is generally characterized by a difficult decision-making process.

Banking Sector in 2017

There was no change in the number of banks on the market during 2017 The total number of 23 banks remained stable in the third quarter of 2017 with the total assets of BAM 26 billion, which is the growth of 5.6% compared to the same period of the previous year, primarily because of the increase in loans to customers.

The sector structure did not change significantly. Only two banks on the market had the total assets exceeding BAM 4 billion, while 8 banks on the market had the assets exceeding BAM 1 billion. The number of employees in the banking sector increased slightly in the third quarter of 2017 up to 9,640 (+0.6%y/y), while the number of branch offices decreased down to 844.

Stability of the banking sector was confirmed once again by a satisfactory level of capitalization of 15.6% in the third quarter of 2017 and high liquidity visible in free assets with the Central Bank of Bosnia and Herzegovina above the amount of the minimum reserve. With new regulatory framework in 2017, the banking sector in Bosnia and Herzegovina got additionally closer to the EU regulatory requirements, primarily through adoption of the new Law on Banks, and by introduction of the new decisions, instructions, guidelines and reports, such as the Internal Capital Adequacy Assessment Process in the Bank, Recovery Plan of the Bank and the Banking Group, Interest Rate Risk Management, etc.

According to the latest available aggregated reports of the banking agencies, the banking system of Bosnia and Herzegovina generated profit before tax in the amount of BAM 327 million in September 2017, which was the growth of 48% compared to the same period of the previous year. Profitability growth was primarily a result of the change in operating results of several banks, which operated with significant losses in previous years. However, regardless of those effects, we may state that the banking sector recorded the improvement of profitability and efficiency indicators.

Given the fact that market rates are still in a negative trend and they create pressure on interest margins, income growth was mostly generated from non-interest income, whereby banks managed to compensate the fall of interest income by new fees and prices, and thus improved profitability and efficiency ratios. Two largest banks on the market account for 47% of the totally generated profit before tax in the nine months in 2017

The year was marked by the improved lending activity with the growth of 6.5% compared to the end of 2016 Long-term loans increased in 2017 in both segments. Loans to private individuals continued with a rising trend that reached a growth rate of 6.6% compared to the end of 2016 After a long time, legal entities recorded a growth rate of 6.4%. Loans to private companies recorded the most significant growth of 6.7% compared to the end of 2016 Loans to state and public companies grew by 2.5% only. The two largest banks account for 31% of the total loan portfolio of the sector.

The share of non-performing loans (NPL) was still at the high level, with a constant improvement trend, reaching the level of 10.7% in the third quarter of 2017 The entity of Republika Srpska still had a higher share of non-performing loans of 11.4%, while the non-performing loans ratio in the Federation of BH amounted to 10.5%. The sale of the non-performing loans (NPL) portfolio in 2017 also had a positive impact on the total aggregated share of non-performing loans on the market.

Despite the low interest rates on deposits, the private individuals' deposits volume reached record amounts with more than BAM 11 billion at the end of the year and a growth rate of + 5.7%. Its result is also the continuance of the private individuals deposits growth with the growth rate of 5.7 compared to the end of 2016 In the segment of legal entities in 2017, government deposits had the highest growth rate of 29.5%, partly due to the clearing debt paid to Bosnia and Herzegovina by Russia and partly because of the issue of securities. Private enterprises grew by 19.4% compared to the end of 2016 Total deposits of customers exceeded the total loan amount by more than BAM 1.4 billion, and the loan to deposit ratio was reduced to 93%.

The average amount of the minimum reserve recorded the growth in comparison with the previous year. Securities in banks' balance sheets in BH at the end of September 2017 amounted to BAM 1.9 billion, which represents an increase by 6% compared to the end of 2016 Most of the increase was related to the investments in securities issued by the Federation of BiH and Republika Srpska.

Expectations for 2018

It is expected that sector profitability will improve over the years, since certain banks managed to finally recover from losses. Continuance of reforms, which could enable economic acceleration and the improvement of the overall labour market, together with revival of infrastructural projects in the country, is an important condition for development of the banking sector. The risk continues also in the fact that 2018 is an election year, when infrastructural projects could be prolonged easily.

Business Overview

UniCredit Bank a.d. Banja Luka (hereinafter referred to as: the "Bank") is the licensed commercial bank with the registered office in Banja Luka, Bosnia and Herzegovina.

As the legal successor of the first bank built in this area "Privilegovana zemaljska banka za BiH - Filijala Banja Luka" ("Privileged Land Bank for BIH – Branch of Banja Luka") established in 1910, UniCredit Bank a.d. Banja Luka has had the longest tradition of banking operations in Bosnia and Herzegovina in its foundations. In more than 107-year long history, this Bank went through several different transformations and operated successfully in different legal and organizational forms.

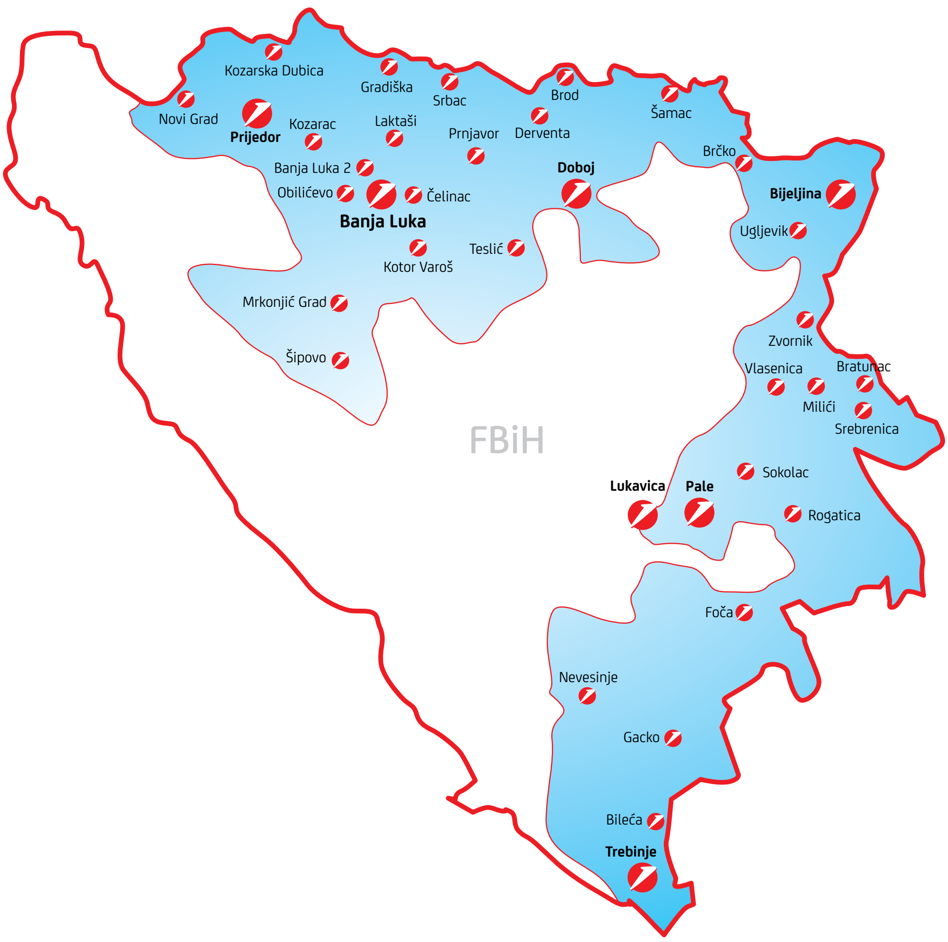
The Bank provides the full range of financial services to companies and private individuals in Republic of Srpska, one of the two entities of Bosnia and Herzegovina. The set of banking services provided by the Bank includes the operations with private individuals, small and medium sized companies, corporate and investment banking, business with financial institutions and public sector as well as international operations.

The Bank actively participates in the implementation of new development projects in the banking sector and contributes through its engagement to the promotion of an innovative approach to the market, transparent communication, implementation of the highest reporting standards and sharing the know-how gained from the rich experience and affiliation with the UniCredit Group.

Relying on the strength of the UniCredit Group, and taking into account the specifics of the local market, we provide the integrated approach to solutions, improving the quality of our products and services, increasing the efficiency and endeavouring to facilitate the ease of doing business with our clients. Long-term and partnership business relationship with our clients, as well as support to the development of our economy, through projects of public importance, still remain the basic priorities of our business.

With the focus on the constant improvement of our business model and our products, we remain dedicated and close to our customers, aimed at achieving the best possible results together

The Branch Network Map



Pregled poslovnih segmenata

Segment Maloprodaje

Organization

The Retail segment offers a wide range of products and services to customers, through the area of family and small business banking, and through the branch network and the direct distribution channels.

The Bank business network is divided into 6 regions, which are further split into branches and agencies located throughout Republic of Srpska, with the total of 37 organizational units at the end of 2017

In its portfolio Retail Banking has more than 138 thousand clients within the segment of private individuals and SB segment.

Commercial Activities in 2017

Clients recognize the Bank as a reliable partner and owing to that in 2017 the Bank recorded a growth in the volume of loans and deposits in the Retail segment.

Volume of loans to Retail clients notes growth in 2017 Compared to previous year and is amounted to BAM 493.3 million at the end of 2017 It is important to note that all key indicators of portfolio quality improved. The main driver of this growth were the new non-purpose loans adjusted to customer needs and market requirements. Total market share in loans to private individuals amounted to 20.2 % in Republic of Srpska and 5.2 % in BH as at the end of September 2017

As a result of increased customer confidence in the Bank, Retail deposits increased to BAM 441.0 million at the end of 2017 Market share in private individuals' deposits amounted to 11.9% in RS and 3.3% in BH concluding with the end of September 2017

The development of the Bank's products continued in 2017 primarily in the area of card products (3 new card products were implemented: debit card linked to the foreign currency account; the instant card which is available to the client at the moment of the account opening and the rechargeable card) and direct channels, which is a prerequisite for business migration to sales channels (m-bank, e-banking, ATMs, POS, etc.), which will enable us to provide the service in a faster and simpler way to our clients, in accordance with the needs of the modern age.

Digitization and strengthening of the direct channels has been recognized as one of the key development directions, where mobile banking also plays a significant role.

Modern technologies provide us with to access our bank account and carry out the transactions through the mobile phone, at any time and from any location, by which the banking itself takes on the global characteristics.

During 2017, we also implemented the Modula package, within which we offer our clients the possibility to create a package in accordance with their own needs.

In order to improve and accelerate the credit process, in 2017 we introduced a new Consumer Finance application for loan approval and placement. The Consumer Finance application provides multitude of process improvements that resulted in simplification of the loan approval process itself and shortening of the response time to the client.

During 2017, the Bank was active in promotion of the Bank's products through various campaigns, where we highlight:

- "Really good mobile banking" (our Bank allocates 10% of transaction fees through "m-bank", in favour of our socially responsible project) - the goal of the project is to provide the community, we are the integral part of, the commitment and support, and do something really good that will remain as our contribution to the community. Building children's playgrounds and beautifying primary schools will be our way of implementation of this program. In cooperation with the cities and municipalities in the Republic of Srpska, the Bank will provide children the new places to play. By painting the murals, we will achieve cooperation with the Academy of Fine Arts and elementary schools, whereby we will provide support to their work and do something new and different;
- In cooperation with our partners, our Bank intended, in addition to promotion of products, to promote also other good living habits with our existing and new clients. So during the summer months, within various campaigns ("Healthy Summer Habits", "Healthy Summer Discounts"), we provided free outdoor exercise for our fellow citizens in order to encourage healthy and active life;
- During December 2017 our Bank organized a prize game as well as discounts with our business partners for UniCredit MasterCard cards users.

Our Bank, together with the sister UniCredit Bank d.d. Mostar, and the European Bank for Reconstruction and Development (EBRD), in 2017, signed new contracts with the aim of financing the energy efficiency projects. By the credit products from this credit line, UniCredit in BiH and EBRD recognized the importance and need to invest in energy efficiency of households, which are also one of the largest energy consumers. Therefore, loans from this line are aimed at lending to private individuals i.e. their households, while the producers of energy efficient materials and technologies will have the benefits from this cooperation, as well as service providers for investments in projects.

The ultimate goal, by investment in these loans, is to influence on the reduction of energy losses and the improvement of energy efficiency through the construction and modernization of the existing residential facilities, apartments and buildings.

Corporate and Investment Banking

Organization

Corporate and Investment Banking segment operates with clients, large and medium-sized enterprises to which, in addition to the product financing, it also offers products from the domain of global transaction banking and financial markets.

Through the business centres, the Bank covers the whole territory of Republic of Srpska, and manages the business relationships with more than a thousand large and medium sized clients, including the public and financial institutions.

Commercial Activities in 2017

During 2017, the key focus of Corporate and Investment Banking was on the business relationship with the stable and perspective companies, as well as the government institutions and public sector.

Despite the challenging environment, the Bank increased lending to corporate clients with a total loan amount of BAM 479.0 million at the end of 2017, while the corporate clients' deposits amounted to BAM 422.6 million. Market share in loans to Legal entities amounted to 20.4% in Republika Srpska and 5.6% in BH at the end of September 2017, while in deposits of legal entities market share amounted to 21.1% in the Republic of Srpska and 4.5% at the BiH level at the end of September 2017 The structure and stability of the loan portfolio was strengthened, retaining the share of bad loans at significantly lower level compared to the market. Also, throughout the year, the Bank participated in securities auctions and confirmed its high market share in this business segment.

During 2017, the Bank took part in all significant and major private sector jobs in the country which are related to the corporate banking clients, while retaining a dominant position in the business relationship with the state and public institutions.

The Bank also provided support to the local companies through projects in the field of Renewable Energy and Energy Efficiency Improvements (GGF) and Support to Women in Business as well as small and medium-sized companies, in cooperation with international financial institutions (EBRD).

Through the International Centre we became recognizable on the market of the Republic of Srpska, at the same time leveraging on the know-how, experience and network of UniCredit Group with the aim of comprehensive support to the clients of Corporate and Investment Banking.

In addition to the many commercial activities, it is important to emphasize that in both business segments we continued to work intensively on strengthening of the quality of human resources, as one of the key preconditions for growth and long-term sustainability and stability of the Bank.

Financial Overview

Financial Overview of the Bank

The Financial Statements of the Bank were prepared in compliance with the Law on Accounting and Auditing of Republika Srpska, according to which all legal entities are required to prepare the Financial Statements in line with the International Accounting Standards and International Financial Reporting Standards (hereinafter: IAS and IFRS).

In the reporting period, the Bank operated in compliance with Law on Banks of Republic of Srpska and decisions stipulated by the Banking Agency of Republika Srpska (hereinafter: BARS), as well as other valid legal and by-laws, and prepared the reports defined by the BARS and the other local institutions, as well as reports for the majority owner (managerial and for the needs of consolidated statements at UniCredit Group level).

Financial indicators

In 2017 the Bank confirmed the previous trend of continual growth and the maintenance of high standards of profitability and efficiency.

Profit and loss

In 2017, the Bank generated net profit in the amount of BAM 25.8 million, which was higher by 15.2% than in the previous year as a result of the better operating income generated.

Total operating income in 2017 amounted to BAM 66.8 million which is higher by 5.5% compared to the total operating income generated in 2016, as the result of increase in net interest income and net fee and commission income.

The total operating expenses in 2017 amounted to BAM 31.4 million and they recorded growth by 3.1% vs. previous year, mostly as the result of the increase in personnel expenses.

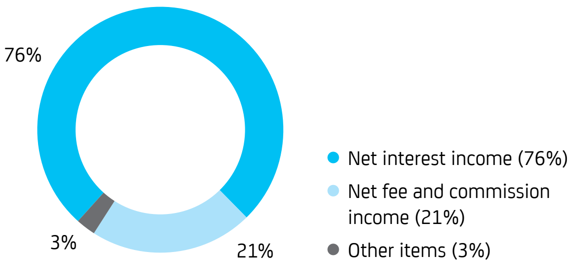
The share of operating expenses in the total operating income decreased from 48.2% to 47.1%, which was the positive trend and it is the result of higher increase in the total income compared to the increase in the total operating expenses.

The more significant growth of operating income resulted in the increase in profit before impairment and provisions by the amount of BAM 2.6 million compared to the previous year.

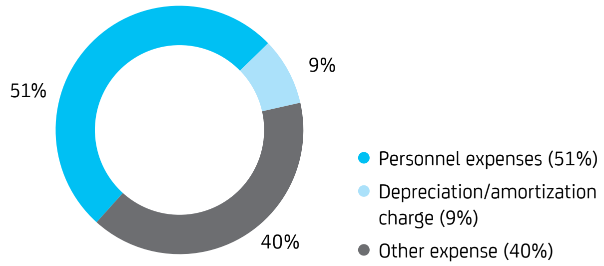
Table: Financial Performance Indicators Overview

UniCredit Bank a.d. Banja Luka in thousand BAM	2017	2016	Change
Profit and loss			
Total operating income	66 763	63 277	5,5%
Total operating expenses	(31 433)	(30 498)	3,1%
Profit before tax	28 436	24 785	14,7%
Profit for the year	25 775	22 383	15,2%
Balance sheet			
Loans and receivables with customers	895 762	854 683	4,8%
Deposits and loans from customers	863 628	790 217	9,3%
Total equity and reserves	201 122	186 670	7,7%
Total assets	1 480 696	1 400 048	5,8%
Capital adequacy			
Total risk weighted assets (RWA)	917 249	877 473	4,5%
Own funds (Regulatory capital)	174 898	161 434	8,3%
Capital adequacy ratio (CAR)	19,1%	18,4%	0,7pp
Business indicators			
Cost income ratio	47,1%	48,2%	-1,1pp
Return on equity (ROAE)	13,1%	12,4%	0,7pp
Return on assets (ROAA)	1,9%	1,8%	0,1pp
Customers Loans to deposits ratio	103,7%	108,2%	-4,5pp
Number of employees	431	429	2
Number of organizational units	37	37	-

Operating income



Operating expenses



Net interest income was generated in the amount of BAM 50.7 million, which is by 3.6% more compared to the previous year, and it formed 76% of the total operating income of the Bank The growth of net interest income compared to the previous year was the result of the higher loan volumes and investment in securities as well as the lower interest expense per funding sources and customers' deposits.

Net fee and commission income amounted to BAM 14.3 million, which is r by 10.2% more compared to the same period of the previous year, and formed 21% of the total operating income. The increase in fees was mainly a result of the growth of commercial activities in the part of loans and payment transactions.

The other items of income included the net gains from exchange rates differences after recalculation of monetary assets and liabilities in the amount of BAM 1.5 million, gains from investments in the amount of BAM 166 thousand and dividend income and equity participation in the amount of BAM 48 thousand and together made only 3% of the total operating income of the Bank.

The structure of the total operating expenses was kept at approximately the same level as in the previous year. HR expenses amounted to BAM 16.0 million, recording a growth of 6% compared to the previous year, accounting for 51% of the total operating costs.

Other administrative costs with BAM 12.6 million participated with 40% in the total operating expenses, while the depreciation costs of tangible and intangible assets amounted to BAM 2.8 million and made 9% of total operating expenses. The recorded growth of the total operating expenses compared to the previous year (+3.1% y/y), was mainly the result of the increase in personnel expenses.

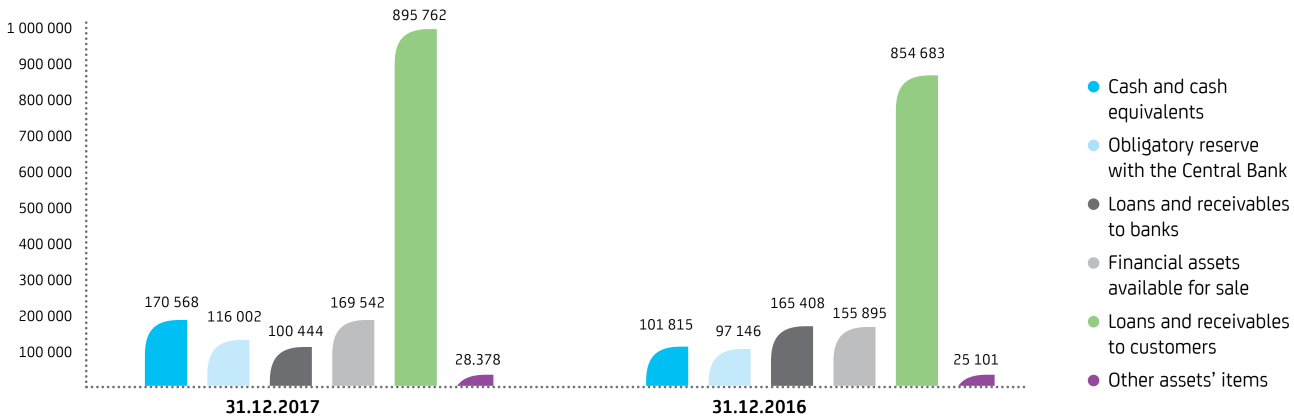
During 2017, the Bank allocated BAM 6.0 million for the costs of impairment and loan loss provisions, which was lower by BAM 1.8 million or 22.9% compared to the previous year, maintaining the high quality of the portfolio.

Balance Sheet

Assets

At the end of 2017, the total assets of the Bank reached the amount of BAM 1.5 billion and it is higher by 5.8% compared to the end of the previous year.

Assets structure



In the structure of the Bank assets, the most significant share of 61% belongs to Loans and receivables with customers amounting to BAM 895.8 million and recording the growth of 4.8% compared to the previous year's end. Loans and receivables with banks amount to BAM 100.4 million, and together with the obligatory reserve with the Central Bank and cash and other assets accounted for 28% of total assets of the Bank.

Financial assets available for sale participate with 11% in the total Bank's assets. They amounted to BAM 169.5 million which is by 8.8% more compared to the previous year's end and mainly consisted of securities issued by Government of Republic of Srpska.

Other items of assets consist of real estate and equipment, intangible assets, financial assets at fair value through profit and loss account, deferred tax assets and other assets.

In the structure of the most significant item of the assets- loans and receivables with customers, there is approximately equal participation of loans to legal entities (54%) and loans to private individuals (46%). Net loans to legal entities as of December 31, 2017 amounted to BAM 482.5 million, while net loans to private individuals amounted to BAM 413.7 million.

Gross loans provided to legal entities increased by 4.4%, while loans provided to private individuals increased by 4.9% compared to the end of the previous year.

Liabilities

In the structure of the Bank liabilities, Deposits and loans from customers have the most significant share (58%). Total deposits and loans from customers amounted to BAM 863,6 million and they increased by BAM 73.4 million or 9.3% compared to balance at the previous year's end.

Deposits from banks amounted to BAM 395.9 million which is lower by BAM 1.5 million or 0.4% vs. the end of the previous year.

Total Deposits and loans from banks and customers as of December 31, 2017 amounted to BAM 1,259.5 million (31.12.2016: BAM 1,187.6 million), which was by BAM 71.9 million or 6% more compared to the balance at the previous year's end.

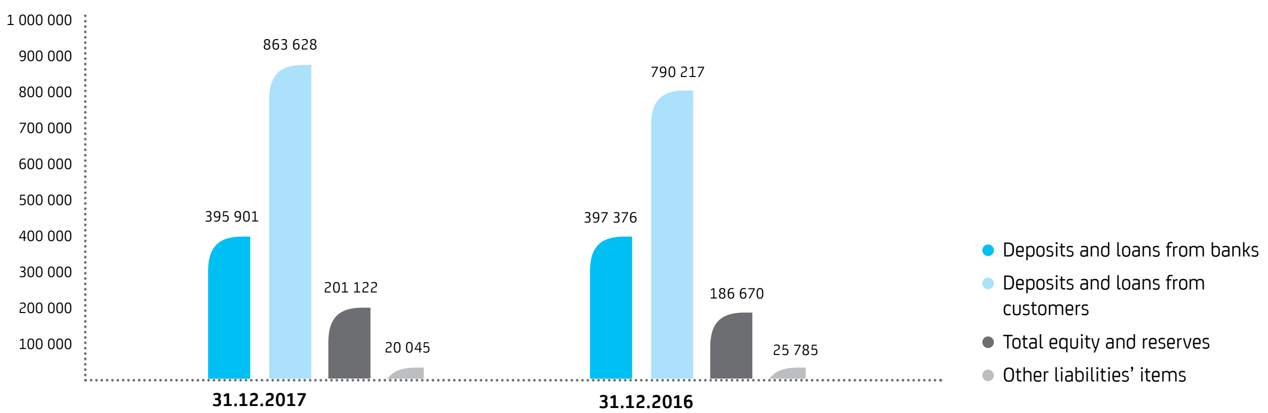
In the structure of Deposits and loans from customers, deposits and loans from legal entities account for 55%, while deposits from private individuals account for 45%.

Deposits from legal entities amounted to BAM 423.8 million at the end of 2017, which was higher by BAM 47.6 million or 12.7% vs. the end of previous year. Sight deposits from legal entities account for 61.1%, while term deposits account for 38.9% of total deposits from legal entities.

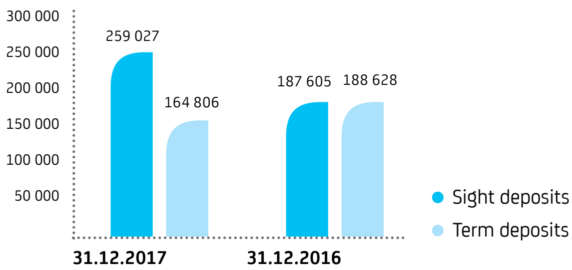
Deposits from private individuals amounted to BAM 388.1 million, which was higher by BAM 34.7 million or 9.8% compared to previous year. Sight deposits from individuals account for 61.8%, while term deposits account for 38.2% of total deposits from individuals.

Customers Loan to deposit ratio decreased from 108.2% down to 103.7% as a result of more significant increase in deposits from customers compared to the increase in loans placed to customers in 2017 compared to 2016

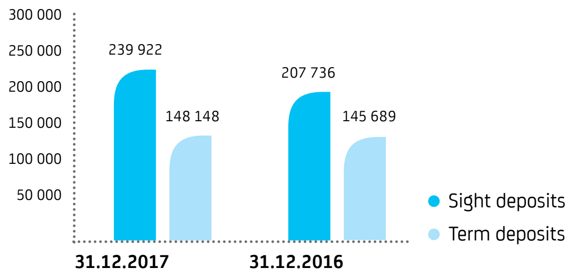
Bank Liabilities structure



Deposits from legal entities



Deposits from individuals



Capital and reserves

Capital and reserves of the Bank amounted to BAM 201.1 million at the end of 2017, which was by BAM 14.5 million more compared to previous year's end as the result of the increase in the reserves from profit.

Based on the General Assembly Decision, in 2017 the Bank paid out a dividend to shareholders in the total amount of BAM 11.2 million (50% of net profit from 2016).

The remaining amount of net profit from 2016 was allocated to the other reserves from profit, as the integral part of capital and reserves.

As at 31.12.2017, the capital adequacy ratio amounted to 19.1% (31.12.2016: 18.4%), which was significantly above the regulatory minimum of 12%.

Improve asset quality.

We addressed Italian legacy issues through the sale of a € 17 billion portfolio (FINO) and proactive bad loans management. A more disciplined risk management strategy and underwriting processes are driving significant improvements in all our asset quality metrics.

Management and Organizational Structure

In accordance with the Law on Banks of RS and the Articles of Association of the Bank, the managing bodies of the Bank are: Shareholders' Assembly, Supervisory Board and Management Board. In addition to the governance bodies, the Bank has the Audit Committee, and other committees in accordance with regulations.

Shareholders' Assembly

The Shareholders' Assembly of the Bank is the Bank's supreme managing body consisting of the Bank's shareholders. The Shareholders' Assembly is chaired and the decisions are signed by the Chairman of the Shareholders' Assembly, who is elected by the present shareholders at the beginning of each meeting.

As of 31 December 2017, the Bank had 63 shareholders in total, of which UniCredit S.p.A, Roma had the largest share with 98.46% of the participation in the total equity of the Bank.

As at 31.12.2017, the Bank's share capital amounted to BAM 97,055 thousand and it consisted of 138,650 ordinary "A" class shares with nominal value of BAM 700.00 per share.

According to the ownership structure, the private capital participates with 99.96%, and the cooperative with 0.04% in the total capital of the Bank, and by origin of the capital 98.5% is made of the foreign capital, and 1.5% of the domestic capital.

An ordinary "A" class shares entitle to one vote in the Shareholders' Meeting of the Bank. Owners of ordinary shares are entitled to manage the Bank, have the right to participation in profit and other rights defined by the Articles of Association, the legal and other regulations.

Supervisory Board

The Supervisory Board manages the Banks' operations, determines the business policy and adopts general acts. The Supervisory Board has the President and four members elected by the shareholders at the Shareholders' Meeting for a period of four years.

As of 31 December 2017, Members of the Supervisory Board were:

Pasquale Giamboi	President	UniCredit S.p.A.
Laura-Kristina Bendeković	Deputy President	UniCredit S.p.A.
Georg Günther Horndasch	Member	UniCredit S.p.A.
Perica Rajčević	Member	Independent Member
Zoran Vasiljević	Member	Independent Member

Management Board

The Management Board organizes, manages and coordinates the Banks' operations, represents and acts on behalf of the Bank towards third parties, it is responsible for the legal operations and implementation of decisions of governance bodies, as well as the approved plans, strategy and business policy.

Management Board is appointed by the Supervisory Board, with prior approval of the Banking Agency of Republic of Srpska.

Management Board Members in 2017 were:

Gordan Pehar	President of the Bank Management Board
Siniša Adžić	Member of the Bank Management Board
Borislav Petrov Guenov	Member of the Bank Management Board (until 17.11.2017)
Nevena Nikše	Member of the Bank Management Board (since 03.03.2017)

Audit Committee

The Audit Committee of the Bank is responsible for supervision of the implementation and engagement of an external audit company, which will conduct the audit of financial statements, as well as for supervision of the operations of the Internal Audit including the control of the statements and the periodic accounts during a year.

The Audit Committee consists of three members who are appointed by the Supervisory Board for a period of four years.

As of 31 December 2017, Members of the Audit Committee were:

Jelena Poljašević	President	Independent Member
Ante Križan	Member	Zagrebačka banka d.d., Zagreb
Antonija Matošin	Member	Prva Stambena Štedionica d.d., Zagreb

Employees

At the end of 2017, the Bank had 431 employees.

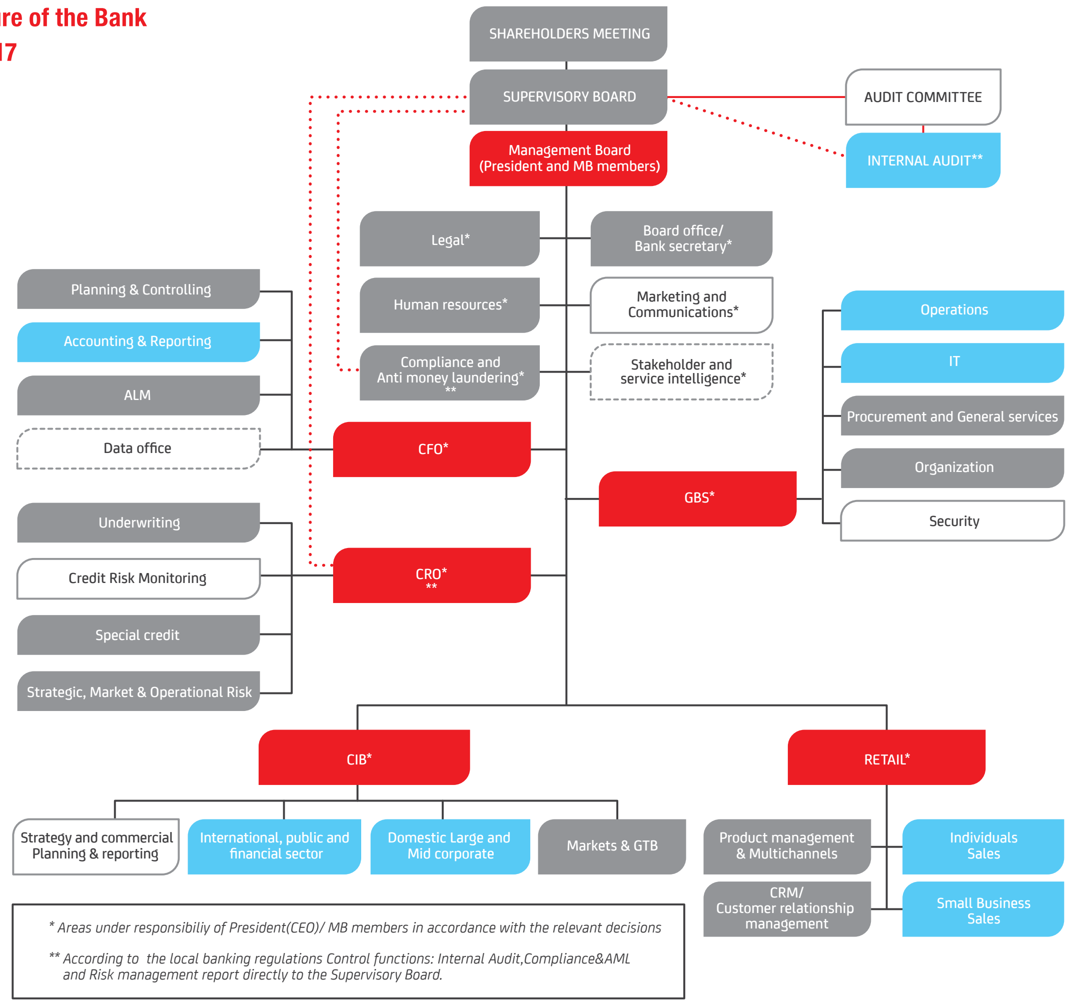
Being aware that our current and future development depends on the quality and commitment of our employees, we constantly work on improvement of knowledge and competences, with targeted training and education. Through development activities we strive to use as diverse modern technologies and tools as possible, such as: electronic learning, participation in projects of acquiring and sharing knowledge within the Group, mentoring and others. In the development activities, the Bank gives special attention to the training of sales staff, managers and employees of high potential, identified as talents.

We are aware of the rapid and frequent changes in the market and the new world trends, therefore, through employee-centred development activities, we are adapting to changes and market demands. In the past year, we worked on testing the new, innovative approaches to work, through the so-called "Agile" approach to projects, through which colleagues from different organizational units had the opportunity to work in various activities within the Bank.

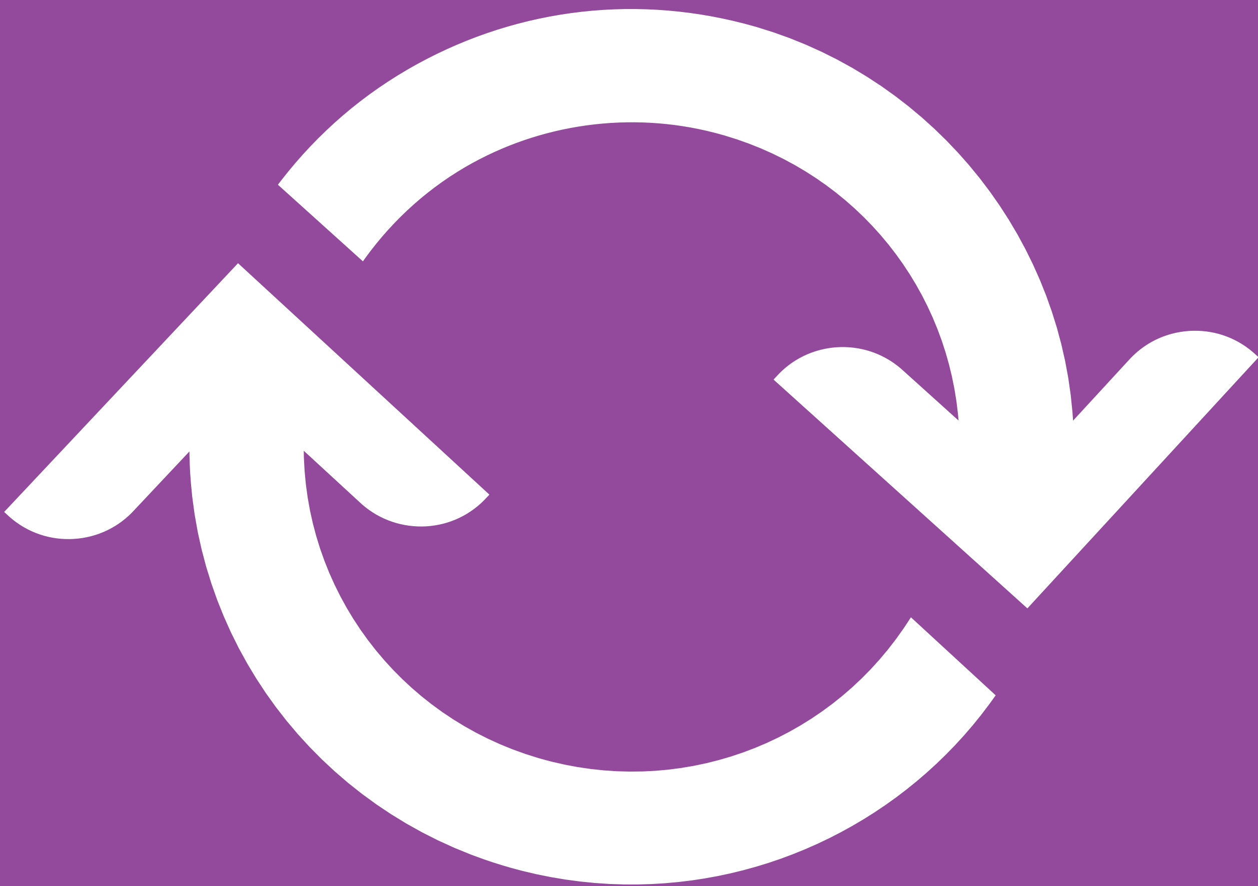
We pay constant attention to the renewal of our staff, and in 2017 we started with the "First Big Chance" project, through which we invited students of the final years to participate in the program, through which they had the opportunity to gain their first working experience.

Employee satisfaction is still one of the important drivers of business, and by conducting a regular internal employee satisfaction survey we receive the feedback from all departments and employees, based on which we plan the activities for improvement from year to year. Through the performance appraisal system, the Bank promotes a culture of communication and feedback, with the aim of improving of the individual performance and overall performance of the Bank.

Organisational structure of the Bank as at 31 December 2017



Transform operating model.



The transformation of our operating model is fully on track, including cost discipline and efficiency measures to reduce the cost income ratio. Our FTE and branch reductions are ahead of schedule – as we further improve on customer focus, services and products. The digital and IT transformation is fully on track, investments supporting the business transformation with digitalization as a key enabler.

Maximise commercial bank value.

We continue to maximise commercial bank value, with the ongoing transformation resulting in higher productivity. Our activities in Western Europe are benefitting from the revamped network with new service models for retail and SME customers as well as a strong multichannel strategy. We have further strengthened our leadership positions in CEE and CIB, while keeping a strong focus on risk.

Independent Auditors' Report

To the Supervisory Board and Shareholders of UniCredit Bank a.d. Banja Luka

Translation of the Auditors' Report issued in the Serbian language

Deloitte.

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78000 Banja Luka
Republika Srpska
Bosna i Hercegovina
Phone: +387 (0)51 223 500
Fax: +387 (0)51 224 990
www.deloitte.com

We have audited the accompanying financial statements (pages 2 to 71) of UniCredit Bank a.d. Banja Luka (hereinafter the "Bank"), which comprise the statement of financial position as of December 31, 2017 and the related statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Law on Accounting and Auditing and standards on auditing applicable in the Republic of Srpska. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

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

Deloitte doo

Deloitte d.o.o.
Banja Luka
February 13, 2018

Financial Statements

Translation of the Auditors' Report issued in the Serbian language

Financial Statements
for the Year Ended December 31, 2017

Statement of profit or loss and other comprehensive income

		Year Ended December 31,	
		2017	2016
	Note	BAM '000	BAM '000
Interest income	*6*	61,272	63,455
Interest expenses	*7*	(10,550)	(14,491)
Net interest income		**50,722**	**48,964**
Fee and commission income	*8*	17,278	15,112
Fee and commission expenses	*9*	(2,966)	(2,120)
Net fee and commission income		**14,312**	**12,992**
Dividend and profit sharing income	*10*	48	3
Net foreign exchange gains upon translation of monetary assets and liabilities	*11*	1,515	1,318
Gains on investments		166	-
Total operating income		**66,763**	**63,277**
Personnel expenses	*12*	(16,039)	(15,116)
Depreciation/amortization charge	*22,23*	(2,763)	(3,074)
Other expenses	*13*	(12,631)	(12,308)
Total operating expenses		**(31,433)**	**(30,498)**
Profit before impairment and provisions		**35,330**	**32,779**
Net impairment losses and provisions for credit risks	*14*	(6,004)	(7,784)
Provisions for risks and expenses	*15*	(450)	(103)
Other operating income/(expenses)		(462)	(249)
Gains/(losses) on sales of property and equipment		22	142
Profit before taxes		**28,436**	**24,785**
Income tax expenses	*16*	(2,661)	(2,402)
Profit for the year		**25,775**	**22,383**
Other comprehensive income, net of income tax			
Items that may subsequently be reclassified to profit and loss			
- (Losses)/gains on the financial assets available for sale		(133)	460
Total comprehensive income for the year		**25,642**	**22,843**
Basic and diluted earnings per share (in BAM)	*31*	185.90	161.44

These financial statements were approved by the Bank's Management on January 30, 2018. Signed on behalf of UniCredit Bank a.d. Banja Luka by:

Gordan Pehar
President of the Management Board

Nevena Nikše
Member of the Management Board

Notes set out on pages 31 to 105 form an integral part of these financial statements

Statement of financial position

As of

	Note	December 31, 2017 BAM '000	December 31, 2016 BAM '000
Assets			
Cash and cash equivalents	*17*	170,568	101,815
Obligatory reserve held with the Central Bank	*18*	116,002	97,146
Loans and receivables due from banks	*19*	100,444	165,408
Financial assets available for sale	*21a*	169,542	155,895
Financial assets at fair value through profit or loss		10	534
Loans and receivables due from customers	*20*	895,762	854,683
Property and equipment	*22*	16,468	16,192
Intangible assets	*23*	5,887	4,566
Other assets	*24*	5,997	3,806
Deferred tax assets	*29*	16	3
Total assets		**1,480,696**	**1,400,048**
Liabilities			
Deposits and borrowings due to banks	*25*	395,901	397,376
Deposits and borrowings due to customers	*26*	863,628	790,217
Financial liabilities at fair value through profit or loss		621	-
Other liabilities	*27*	16,925	23,459
Provisions for liabilities and expenses	*28*	2,066	2,026
Income tax payable		417	300
Deferred tax liabilities	*29*	16	-
Total liabilities		**1,279,574**	**1,213,378**
Equity and reserves			
Share capital	*30*	97,055	97,055
Share premium		373	373
Legal reserves		9,706	9,706
Capital reserves		39,242	28,050
Regulatory reserves for credit losses	*4a*	3,496	3,496
Fair value reserves		(114)	19
Retained earnings		25,589	25,588
Net profit for the year		25,775	22,383
Total equity and reserves		**201,122**	**186,670**
Total liabilities, equity and reserves		**1,480,696**	**1,400,048**

Notes set out on pages 31 to 105 form an integral part of these financial statements

Statement of changes in equity

for year

	Share capital BAM '000	Share premium BAM '000	Regulatory reserves for credit losses BAM '000	Fair value reserves BAM '000	Legal reserves BAM '000	Other reserves from profit BAM '000	Retained earnings BAM '000	Net profit for the year BAM '000	Total BAM '000
Balance as at January 1, 2016	**97,055**	**373**	**3,496**	**(441)**	**9,706**	**17,362**	**25,588**	**21,376**	**174,515**
Profit distribution	-	-	-	-	-	10,688	10,688	(21,376)	-
Dividend payment	-	-	-	-	-	-	(10,688)	-	(10,688)
Net profit for the year	-	-	-	-	-	-	-	22,383	22,383
Other comprehensive income									
Net gains from changes in fair value of financial assets available for sale	-	-	-	460	-	-	-	-	460
Total other comprehensive income	-	-	-	460	-	-	-	-	460
Total comprehensive income	**-**	**-**	**-**	**460**	**-**	**-**	**-**	**22,383**	**22,843**
Balance as at 31 December, 2016	**97,055**	**373**	**3,496**	**19**	**9,706**	**28,050**	**25,588**	**22,383**	**186,670**
Balance as at January 1, 2017	**97,055**	**373**	**3,496**	**19**	**9,706**	**28,050**	**25,588**	**22,383**	**186,670**
Profit distribution	-	-	-	-	-	11,192	11,191	(22,383)	-
Dividend payment (Note 31)	-	-	-	-	-	-	(11,190)	-	(11,190)
Net profit for the year	-	-	-	-	-		-	25,775	25,775
Other comprehensive income									
Net losses on changes in fair value of financial assets available for sale	-	-	-	(133)	-	-	-	-	(133)
Total other comprehensive income	-	-	-	(133)	-	-	-	-	(133)
Total comprehensive income	**-**	**-**	**-**	**(133)**	**-**	**-**	**-**	**25,775**	**25,642**
Balance as at December 31, 2017	**97,055**	**373**	**3,496**	**(114)**	**9,706**	**39,242**	**25,589**	**25,775**	**201,122**

Notes set out on pages 31 to 105 form an integral part of these financial statements

Statement of cash flows

for year

	Year Ended December 31,	
	2017	2016
	BAM '000	BAM '000
Cash flows from operating activities		
- Interest received	61,272	63,455
- Fees and commissions received	17,278	15,112
- Interest paid	(10,550)	(14,491)
- Fees and commissions paid	(2,966)	(2,120)
- Operating expenses paid	(28,670)	(27,424)
- Net proceeds from trading	1,515	1,318
- Other payments	(227)	(104)
1. Net cash generated by operating activities	**37,652**	**35,746**
Changes in operating assets and liabilities		
Net decrease / (increase) in loans and receivables due from banks	64,976	(54,022)
Net increase in loans and receivables due from customers	(45,429)	(21,532)
Net increase in accrued interest and other assets	(3,286)	(871)
Net increase in the obligatory reserve held with the Central Bank	(18,856)	(39,330)
Net (decrease) / increase in deposits from banks	(1,835)	91,163
Net increase in deposits from customers	67,534	36,066
Net (decrease) / increase in other liabilities	(296)	5,733
2. Net changes in operating assets and liabilities	**62,808**	**17,207**
3. Net cash generated by operating activities before taxes (1+2)	**100,460**	**52,953**
4. Income taxes paid	**(2,529)**	**(2,101)**
5. Net cash generated by operating activities (3+4)	**97,931**	**50,852**
Cash flows from investing activities		
Purchases of property, equipment and intangible assets	(4,360)	(4,471)
Net increase in financial assets available for sale	(13,647)	(11,634)
Dividend payment	(11,171)	(10,700)
6. Net cash used in investing activities	**(29,178)**	**(26,805)**
7. Net increase in cash and cash equivalents (5+6)	**68,753**	**24,047**
8. Cash and cash equivalents at the beginning of year	**101,815**	**77,768**
9. Cash and cash equivalents at the end of year (7+8)	**170,568**	**101,815**

Notes set out on pages 31 to 105 form an integral part of these financial statements

1. Reporting Entity

UniCredit Bank a.d. Banja Luka (the "Bank") is a shareholding company registered in the Republic of Srpska for performance of payment transactions, credit and deposit and other banking operations in the country and abroad in accordance with the regulations of the Republic of Srpska.

History of the Bank is related to the beginning of the past century, i.e. to 1910 and establishment of the Monetary Institute which subsequently developed into the "Banka za trgovinu i obrt". In the following 60 years, numerous transformations and changes of names under which the Bank operated were made: in 1956, the "Sreska komunalna banka", in 1961, the "Komunalna banka", and in 1966, the "Kreditna banka". By the reform of the banking system in 1971, the "Kreditna banka" was merged by the "Privredna banka Sarajevo" as its branch, and in 1976 it obtained a high degree of autonomy and was registered as the "Osnovna banka". Under the Decision of the Founder Assembly in December 1989 the Bank was spun off from the "Privredna banka Sarajevo" system into an independent bank, under the name of "Banjalučka banka d.d. Banja Luka". From June 1998, it continued its operations as a shareholding company under the name Banjalučka banka a.d. Banja Luka.

In accordance with regulations on privatization of state-owned capital in the Republic of Srpska, in October 2000, shares of state-owned enterprises in the Bank were transferred to the management of the RS Ministry of Finance until the completion of privatization of the state-owned capital.

In early 2002, the Government of the Republic of Srpska sold the state-owned shares of the Bank to the company Verano Motors d.o.o. Belgrade. The first Shareholders' Meeting of the private Bank adopted a decision on the change of the name from Banjalučka banka into Nova banjalučka banka a.d. Banjaluka.

Since the end of 2002, the Bank's shares have been quoted on the Stock Exchange. At the end of 2005, having purchased a package of shares (83.3% equity interest), Bank Austria Creditanstalt AG Vienna became the majority owner of the Bank. In the same year, Bank Austria became a member of UniCredit Group and changed name to UniCredit Bank Austria AG. By further purchases of shares and increase in the Bank's share capital, "UniCredit Bank Austria AG" increased its equity interest to 98.44% of the Bank's total issued capital.

With the change in the ownership structure after the entry of Bank Austria as the majority shareholder, the Bank became a member of HVB Group, and after the change in the ownership structure of Bank Austria whose majority owner became UniCredit Bank Milan, the Bank became a member of UniCredit Group. In 2008, the name Nova banjalučka banka a.d. Banja Luka was changed, hence since June 1, 2008, the Bank has been operating under the name of UniCredit Bank a.d. Banja Luka (the "Bank").

During 2016, ownership of all banks in Central-Eastern Europe was transferred from UniCredit Bank Austria AG, as the Subholding Bank, to UniCredit S.p.A. – Holding, Italy at the level of UniCredit Group.

As at December 31, 2017, the Bank consisted of the Head Office in Banja Luka with the registered address at no. 7, Marije Bursać Street, 32 branch offices and 5 agencies (December 31, 2016: 31 branch offices and 6 agencies). As at December 31, 2017, the Bank had 431 employees (2016: 429 employees).

The tax identification number of the Bank is 4400958880009, and its VAT code is 400958880009.

2. Basis of Preparation and Presentation of the Financial Statements and Accounting Convention

2.1. Statement of Compliance

The accompanying financial statements represent annual financial statements of UniCredit Bank a.d. Banja Luka, prepared in accordance with the International Financial Reporting Standards (IFRS).

2.2. Application and Impact of the New and Revised IFRS

Initial Application of New Standards and Amendments to the Existing Standards Effective for the Current Reporting Period

The following new Standards and amendments to the existing Standards issued by the International Accounting Standards Board (IASB) have been effective over the current reporting period:

- Amendments to IAS 7 "Statement of Cash Flows" – Disclosure Initiative (effective for annual periods beginning on or after January 1, 2017);
- Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealized Losses (effective for annual periods beginning on or after January 1, 2017); and
- Amendments to IFRS 12 due to "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after January 1, 2017).

Adoption of these amendments to the existing Standards has not led to any material changes in the Bank's financial statements.

New Standards and Amendments to the Existing Standards in Issue not yet Adopted

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

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after January 1, 2018);
- IFRS 15 "Revenue from Contracts with Customers" and further amendments (effective for annual periods beginning on or after January 1, 2018);
- IFRS 16 "Leases" (effective for annual periods beginning on or after January 1, 2019);
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after January 1, 2021);
- Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after January 1, 2018);
- Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after January 1, 2018or when IFRS 9 "Financial Instruments" is applied first time);
- Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after January 1, 2019);
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IAS 19 "Employee Benefits" - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after January 1, 2019);

2. Basis of Preparation and Presentation of the Financial Statements and Accounting Convention (CONTINUED)

2.2. Application and Impact of the New and Revised IFRS (CONTINUED)

New Standards and Amendments to the Existing Standards in Issue not yet Adopted (CONTINUED)

- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2019);
- Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after January 1, 2018);
- Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after January 1, 2018);
- Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after January 1, 2019);
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after January 1, 2018); and
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after January 1, 2019).

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

With particular reference to IFRS 9 (applicable to the Bank) effective from January 1, 2018, we highlight that the new Standard:

- will introduce significant changes compared to IAS 39 to classification and measurement of loans and debt instruments based on the "business model" and on the characteristics of the cash flows of the financial instrument (SPPI - solely payments of principal and interests criteria);
- requires classification of the equity instruments at fair value through "other comprehensive income" ("FVOCI"). Unlike previous requirements for available for sale assets set by IAS 39, IFRS 9 has eliminated the requirement to recognize impairment losses and, in case of disposal of the instruments, the gain or losses from disposal shall be recycled to other equity reserves and not to profit and loss accounts; and
- will introduce a new accounting model for impairment, based on expected losses approach substituting the current approach based on the actually incurred losses.

In order to grant prompt compliance with the requirements set by the accounting principles, the Group has activated a project, which is in its final phase, with the aim of creating accounting and risk monitoring methodologies harmonized across the Group entities.

Mirroring the main changes required by IFRS9, the Bank has organized the project through two work-streams:

- "Classification and Measurement" work-stream, aimed at reviewing classification of the financial instruments according to new IFRS 9 criteria, and
- "Impairment work-stream", aimed at developing and implementing models and methodologies for impairment calculation.

The entire project is being developed with the involvement of all the relevant departments of the Bank and with an active involvement of Senior Management.

With reference to "Classification and Measurement" work-stream, the Bank has:

- identified the criteria, based on the new business model and on the features of the associated contractual cash flows, for classification of financial instruments into the new categories stipulated by the new accounting Standard;
- applied the criteria identified to the classification of the current portfolio.

2. Basis of Preparation and Presentation of the Financial Statements and Accounting Convention (CONTINUED)

2.2. Application and Impact of the New and Revised IFRS (CONTINUED)

New Standards and Amendments to the Existing Standards in Issue not yet Adopted (CONTINUED)

The analysis of the business model has been performed by mapping the Bank's business areas to appropriate business models.

In this regard, a "held-to-collect" or "held-to-collect and sell" business model has been mapped to the business areas composing the Bank's portfolio depending on the reason for which a particular instrument has been acquired or originated and on the expected cash flows from the financial instruments.

In this context, possible sales of financial instruments are considered as compliant with the "held-to-collect" business model in case of (i) securitization transactions that do not achieve derecognition of the underlying loans, (ii) sales determined by adverse change in the credit risk of the counterparty, (iii) or sales that are infrequent or in insignificant individual amounts.

A business model "other" has been assigned to the business areas composing the Bank's portfolio of derivatives.

For the classification of financial assets into the new IFRS 9 categories, the analysis of the business model was complemented by the analysis of the contractual cash flows ("SPPI Test").

In this regard, the Bank has developed processes and systems aimed at analyzing the portfolio of securities and loans to assess whether the features of their contractual cash flows allow their measurement at amortized cost ("held-to-collect" portfolio) or at fair value through comprehensive income ("held-to-collect and sell" portfolio").

This analysis was performed either contract by contract or by clusters, defined based on the features of the assets, and using a specific tool (SPPI Tool) in order to analyze the features of the contracts against IFRS 9 requirements..

In this context, prepayment features with negative compensation have not affected the outcome of SPPI test.

The Bank will measure equity instruments at fair value through other comprehensive income.

The applicable asset perimeter subject to expected losses (EL) calculation have been extended in order to include, in addition to financial assets measured at amortized cost and the applicable off balance sheet exposures, all assets classified at fair value through other comprehensive income.

Furthermore, specific adjustments have been developed on probability of default (PD), loss given default (LGD) and exposure at default (EAD) parameters used in the expected credit loss (ECL) calculation, and a new model has been developed to assess the stage allocation on unimpaired assets, at the transaction level, between Stage 1 and Stage 2.

The main difference between the two stages refers to the time horizon which ECL is expected to be calculated on. In fact, for Stage 1 transactions a "one- year" ECL is required, while a "lifetime" ECL applies to Stage 2 transactions.

For PD, LGD and EAD specific adjustments are as follows:

- introduce a "point in time" adjustment, instead of the "through the cycle" adjustment embedded in the regulatory parameters
- include forward-looking information;
- extend the credit risk parameters in a multiyear perspective.

As for what concerns the lifetime PDs, the through-the-cycle PD curves, obtained by fitting the observed cumulative default rates, PDs have been further calibrated to reflect a point in time and forward-looking expectation about the portfolio default rates.

Recovery rate embedded in the through-the-cycle LGD have been adjusted to reflect the most recent recovery rate trend as well as expectation about a future trend and discounted at the effective interest rate or its best approximation.

2. Basis of Preparation and Presentation of the Financial Statements and Accounting Convention (CONTINUED)

2.2. Application and Impact of the New and Revised IFRS (CONTINUED)

New Standards and Amendments to the Existing Standards in Issue not yet Adopted (CONTINUED)

The lifetime EAD has been obtained by extending the 1Y managerial model, including expectation about future drawing levels.

The expected credit loss derived from such adjusted parameters has been compounded also taking into consideration macroeconomic forecasts and applying multiple scenarios to the forward looking component so to offset the partial non linearity naturally embedded in the correlation between macroeconomic changes and the key components of ECL. Specifically, the non-linearity effect has been incorporated by estimating an overlay factor, developed by the Group, to be directly applied to the portfolio ECL. Deadline for local implementation is Q1 2018.

The same multiple scenario is used in other risk relevant processes (EBA stress test and ICAAP). In those processes the Bank provides the necessary information in the required scope and format.

A key aspect deriving from the new model in compounding the final expected credit loss is represented by the stage allocation model, aimed to allocate credit transactions between Stage 1 and Stage 2 (Stage 3 representing EAD), whereas Stage 1 mainly includes:

a) newly originated exposures,
b) exposures with no significant deterioration in credit quality since initial recognition, or
c) low credit risk exposures at the reporting date.

In UniCredit Group the stage allocation assessment includes a combination of relative and absolute triggers. Considering a low number of observations in the Bank's portfolio, the Bank uses only qualitative criteria in recognition of significant credit risk increases, such as:

a) Forbearance status classification – results in an exposure automatically classified in Stage 2 at least within next 9 months (since the date of classification). After that period, if there are no other triggers, the transaction may be returned into Stage 1.
b) 30 days past due – if a transaction reaches 30 dpd, it should be classified as Stage 2.
c) Restructuring status – all performing exposures transferred to the remit of the Special Credit Unit are automatically classified as Stage 2.
d) Watch list classification
e) Manual adjustments – exposures with recognized increasing credit risk but not recognized using the main qualitative criteria.

The Bank's assets classified as securities are subject to Stage 2 classification, which is fully in compliance with the applicable Standard, since securities are classified as non-investment grade securities.

In addition, impairment calculated for impaired (default status) assets has been adjusted as required by the new regulation requirements, in order to include forward-looking adjustments and multiple scenarios applicable to this class of assets.

In defining the perimeter of impaired assets, the definition of default currently applied by the Bank already incorporates some of the key principles embedded in the Definition of Default Guidelines issued by European Banking Authority (EBA), where the aggregate borrower exposure is classified as a default exposure if only one of the transactions is in the default status (the so called "debtor approach").

According to the project implementation plan, the Bank implemented a tool for impairment calculation and is finalizing the preparation of the methodological guidelines.

In addition, the methodological approaches adopted by UniCredit Group and the Bank in the context of IFRS 9 project have been subject to structured review by external auditors, which are currently performing a comprehensive assessment of the implementation.

2. Basis of Preparation and Presentation of the Financial Statements and Accounting Convention (CONTINUED)

2.2. Application and Impact of the New and Revised IFRS (CONTINUED)

New Standards and Amendments to the Existing Standards in Issue not yet Adopted (CONTINUED)

In this regard, it should be highlighted that from the analysis performed so far no criticalities have arisen that may cast doubts on the overall adequacy of the said methodological approaches, pursuant to the requirements of the new principles.

At the first-time adoption date, the main impacts of IFRS 9 on the Bank are expected to come from the application of the new model for impairment based on the expected loss approach and the application of the new transfer logic between the different stages provided for by the new Standard. In particular, a greater volatility is expected to be generated in the financial results between different reporting periods due to the dynamic changes between different stages of the financial assets recognized in the financial statements (especially between Stage1 and Stage 2).

With reference to “Classification and Measurement”, there will be no reclassifications of loans and debt securities at fair value through profit or loss due to the characteristics of the cash flows (SPPI criterion). Consequently there will be no effect on CET 1.

Overall adjustments to the carrying value of financial instruments due to transition to IFRS 9 will be accounted for within equity as of January 1, 2018. and they will have an impact on fully loaded CET1 ratio, gross of tax effect, that can be estimated in the range of +122bps (meaning +1,22 pp) which is equivalent to BAM +2.0 million.

Considering the overall adjustments to the carrying value of financial instruments due to transition to IFRS 9, positive effects have mainly resulted from application of the new methodology which decreased credit risk parameters compared to the ones used previously under IAS 39 (PD driven directly from BA master scale, shorter observation period in CR calculation, higher PD for sovereign exposure), as well as high share of short-term exposures in the overall portfolio.

IFRS 15, effective starting from January 1, 2018, has been endorsed by the European Union with Regulation EU 2016/1905 dated September 22, 2016 (published on October 29, 2016), modifies the current set of international accounting principles and interpretations on revenue recognition and, in particular, IAS 18.

IFRS 15 provides for:

- two approaches for revenue recognition (“at point in time” or “over time”);
- a new model for transaction analysis (“five-step model”) focused on the transfer of control; and
- a requirement for a more detailed disclosure to be included in the explanatory notes to the financial statements.

Adoption of the new accounting Standard could determine (i) reclassification between line items of the income statement used for presenting revenues, (ii) change in the timing recognition of such revenue, when the contract with the customer contains several performance obligations that must be accounted for separately under the accounting Standard, (iii) different measurements of the revenues so as to reflect their variability.

Based on the analysis performed at the Bank level so far no major effects of the adoption of IFRS 15 are anticipated.

IFRS 16, effective starting from January 1, 2019, has been endorsed by the European Union with Regulation EU 2017/1986 dated October 31, 2017 (published on November 9, 2017), modifies the current set of international accounting principles and interpretations on leases and, in particular, IAS 17.

IFRS 16 introduces a new definition for leases and confirms the current distinction between the two types of leases (operating and finance) with reference to the accounting treatment to be applied by the lessor. With reference to the accounting treatment to be applied by the lessee, the new accounting standard sets, for all the leasing typologies, recognition as an asset, representing the right of use of the underlying asset and, at the same time, a liability reflecting the future payments of the lease contract.

2. Basis of Preparation and Presentation of the Financial Statements and Accounting Convention (CONTINUED)

2.2. Application and Impact of the New and Revised IFRS (CONTINUED)

New Standards and Amendments to the Existing Standards in Issue not yet Adopted (CONTINUED)

At the initial recognition such an asset is measured based on the lease contract cash flows, which include, in addition to the present value of lease payments, any initial direct cost attributable to the lease and any other costs required for the dismantling/removing the underlying asset at the end of the contract. After the initial recognition, the right-of-use will be measured on the basis of the provisions set for tangible assets measured using the cost model (at cost less any accumulated depreciation and any accumulated impairment losses), the revaluation model or the fair value model set by IAS 16 or by IAS 40.

2.3. Basis of Preparation and Presentation of the Financial Statements

The accompanying financial statements have been prepared on the historical cost basis, except for revaluation of certain financial instruments that are measured at fair value at the end of each reporting period, as explained in more detail in the accounting policies below.

Historical cost is generally based on the fair value of consideration paid in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Upon estimating the fair value of assets or liabilities, the Bank takes into account characteristics of assets or liabilities that other market participants would also consider upon determining the price of assets or liabilities at the measurement date.

In preparing the statement of cash flows for the year ended December 31, 2017, the Bank used direct cash flow reporting method.

In the preparation of the accompanying financial statements, the Bank has adhered to the accounting policies described in Note 3 to the financial statements.

2.4. Functional Currency and Presentation Currency

Financial statements are stated in convertible marks ("BAM"), BAM being the Bank's functional currency. The values are rounded to the nearest thousand (if not otherwise stated).

The Central Bank of Bosnia and Herzegovina (the "Central Bank") implements the policy on FX rate in line with the principle of the Currency Board, according to which BAM is fixed to EUR at the rate of BAM 1 = EUR 0.511290, which was used for 2017 and 2016

2.5. Comparative Financial Information

In order to achieve consistency with the current period presentation, the Bank made certain immaterial reclassifications to the comparative financial information for 2016 The said reclassifications had no impact on the Bank's financial performance or equity.

3. Significant Accounting Policies

The accounting policies presented hereinafter have been consistently applied to all the years presented.

3.1. Interest Income and Expenses

Interest income and expenses are recognized in the statement of profit or loss as they accrue for all interest-bearing instruments using the effective interest method, i.e. at the rate that discounts the estimated cash flows to their net present value over the respective contract term.

The effective interest rate is the rate that precisely discounts the estimated future cash disbursements or payments over the expected life of a financial instrument or, as appropriate, a shorter period, to the net carrying value of the financial asset or liability. When calculating the effective interest rate, the Bank estimates cash flows, taking into consideration all contractual terms related to the financial instrument, but not considering future credit losses.

The calculation includes all fees and commissions paid or received, which are a constituent part of the effective interest rate, transaction costs and all other premiums and discounts. Such income and expenses are presented as interest income and interest expenses in the statement of comprehensive income.

Interest income and expenses recognized in profit or loss include:

- Interest on financial assets and financial liabilities that are measured at amortized cost calculated using the effective interest method, and
- Interest on debt securities available for sale calculated using the effective interest method.

3.2. Fee and Commission Income and Expenses

Fee and commission income and expenses mainly comprise fees related to credit card transactions, issue of guarantees and letters of credit, domestic and foreign payment transactions, foreign exchange trading, brokerage services, depositary activities and other services and are recognized in the statement of profit or loss upon performance of the relevant service.

3.3. Net Foreign Exchange Gains / Losses on Translation of Monetary Assets and Liabilities

Net foreign exchange gains and losses arising on translation of monetary assets and liabilities include unrealized and realized net foreign exchange (FX) gains and losses on derivative financial instruments, and gains and losses arising on translation of monetary assets and liabilities.

3.4. Foreign Currencies

Transactions in foreign currencies are translated into BAM at the exchange rate prevailing at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into BAM at the foreign exchange rate effective at that date. Foreign exchange differences arising on translation are recognized in the statement of comprehensive income, except in the case of FX gains and losses arising on non-monetary available-for-sale financial assets, which are recognized within equity. Non-monetary assets and liabilities denominated in foreign currencies measured at historical cost are translated into BAM using the exchange rate effective at the date of the transaction and are not retranslated at the reporting date.

3. Significant Accounting Policies (CONTINUED)

3.5. Income Taxes

Income tax is based on taxable profit for the year and comprises current and deferred taxes.

Current Income Tax

Current income tax is the amount calculated using the prescribed tax rate of 10% applied to the tax base determined in the income tax return, which represents the amount of the profit before tax adjusted for the effects of income and expense adjustments and any adjustments to the tax payable for prior years, in accordance with the tax legislation of the Republic of Srpska.

Deferred Income Taxes

Deferred taxes are calculated using the balance sheet liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which realization or settlement of the carrying values of the assets or liabilities is expected, based on the tax rates applicable at the statement of financial position date.

Measurement of deferred tax liabilities and assets reflects the tax effects that would result from the manner in which the Bank expects, at the statement of financial position date, to recover or settle the net carrying values of these assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the statement of financial position. Deferred tax assets are recognized only to the extent that it is probable that they could be utilized as tax relief. At each reporting date, the Bank reassesses unrecognized contingent deferred tax assets and tests the carrying values of the recognized deferred tax assets for impairment.

3.6. Financial Instruments

Classification

The Bank classifies its financial instruments in the following categories: loans and receivables, available-for-sale (AFS) financial assets, financial assets held to maturity, financial assets and liabilities at fair value through the statement of profit or loss, and other financial liabilities. Management determines the classification of financial instruments upon initial recognition and reviews initial classification at each reporting date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Loans and receivables arise when the Bank provides money to borrowers with no intention of trading with the receivables. Loans and receivables include loans approved to and receivables from banks and customers.

Available-for sale (AFS) financial assets are non-derivative financial assets classified as available for sale or not classified in any other category. Financial assets classified as AFS are intended to be held for an indefinite period, but may be sold in response to a need for liquidity or a change in interest rates, foreign exchange rates or equity prices. Assets available for sale include debt and equity securities.

3. Significant Accounting Policies (CONTINUED)

3.6. Financial Instruments (CONTINUED)

Classification (CONTINUED)

Financial assets and financial liabilities at fair value through profit or loss (FVTPL) have two sub-categories: financial assets held for trading (including derivatives) and those designated by management as FVTPL at inception. A financial instrument is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term, for the purpose of short-term profit taking, or designated as such by management.

Financial assets held to maturity comprise debt securities that the Bank intends to hold until their maturity.

Other financial liabilities comprise all financial liabilities that are not designated at fair value through the statement of comprehensive income and include current accounts, deposit accounts and borrowings.

Recognition

Loans and receivables and other financial liabilities are recognized when disbursed or received.

Financial assets available for sale, financial assets held to maturity and financial assets and liabilities at fair value through statement of comprehensive income are recognized as at the trading date.

Measurement

(a) Loans and Receivables
Loans and receivables are initially recognized at fair value. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

(b) Available-for-Sale Financial Assets
AFS financial assets are initially measured at fair value increased by transaction costs that are directly attributable to the acquisition or issue of a financial asset. Subsequent to initial recognition, all AFS financial assets are measured at fair value, except for equity instruments that do not have a quoted market price in an active market, or whose fair value cannot be reliably measured, which are stated at cost, including transaction costs, less impairment, if any.

In compliance with IFRS 13 - "Fair value", the Bank performs revaluation of all securities in its portfolio thereby adjusting the balances of securities to their fair value.

Special attention upon revaluation is paid to debt securities portfolio, which comprises a significant portion of the Bank's assets as of December 31, 2017 and revaluation is calculated based on the interest rate risk, i.e. the risk of change to the market interest rate (IR-delta), which is more manifest in instruments with fixed yield.

(c) Financial Assets and Financial Liabilities at Fair Value through Other Comprehensive Income (FVTOCI)
Financial assets held to maturity are initially recognized at fair value. After initial recognition, financial assets held to maturity are measured at amortized cost using the effective interest method, less any impairment.

(d) Financial Assets Held to Maturity
Financial assets held to maturity are initially recognized at fair value. After initial recognition, financial assets held to maturity are measured at amortized cost using the effective interest method, less any impairment.

(e) Other Financial Liabilities
Other financial liabilities are initially measured at fair value. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

3. Significant Accounting Policies (CONTINUED)

3.6. Financial Instruments (CONTINUED)

Recognition of Gains and Losses on Subsequent Measurement of Financial Instruments

Interest accrued using effective interest method is recognized in the statement of comprehensive income.

Gains and losses arising from changes in the fair values of financial assets or financial liabilities at fair value through profit or loss are recognized in the statement of comprehensive income. Gains and losses arising from changes in the fair values of available-for-sale assets are recognized directly in other comprehensive income, until cessation of recognition or permanent impairment of these financial assets, when the corresponding amount of the accumulated effects of changes in their fair market values, previously recognized in other comprehensive income, is transferred to profit or loss. Foreign exchange gains and losses on AFS equity instruments are part of the fair value of these instruments and are recognized within equity. Impairment losses, interest income and amortization of premium or discount using the effective interest method on AFS debt securities are recognized in the statement of profit or loss. Dividend income on AFS equity securities is recognized in the statement of profit or loss when the Bank's right to receive payment has been established.

Impairment of Financial Assets

The Bank reviews financial assets at each reporting date to determine whether there is objective evidence of impairment. The impairment of financial assets or a group of financial assets is recognized if there is objective evidence of impairment as a result of one or more events occurring after initial recognition, which has an influence on estimated future cash flows from the financial assets or a group of financial assets, which can be reliably estimated.

1) Loans and Receivables

The Bank regularly reviews and monitors at each reporting date whether there is objective evidence of impairment of loans and receivables as well as other financial assets.

Loans and receivables' impairment is recognized if there is an objective evidence of impairment as a result of one or more events which took place after the asset recognition (loss event), with the event(s) also affecting the estimated future cash flows, which can be reliably estimated.

Objective evidence of impairment can include the following:

- significant financial difficulties of a client,
- irregular settlement of obligations for principal and interest matured, provided that irregularity has not been arranged with the Bank,
- loan restructuring driven by certain economic or legal issues which have significantly driven deterioration of the client's financial situation,
- assigning forbearance (FB) measures with loss,
- possibility of the client undergoing bankruptcy, liquidation or any other form of financial reorganization,
- available data, which imply measurable decrease in the estimated client's future cash flows.

If there is objective evidence of impairment of loans and receivables on an individual basis, the impairment loss is determined as the difference between the carrying value of the assets and the present value of the expected future cash flows discounted by the original effective interest rate of the financial asset. The carrying value of the asset is decreased by the amount of the credit loss provision (via the impairment provision account), and the amount of the loss is recognized in the statement of profit or loss.

Financial assets, for which no impairment was recognized on an individual basis (or on collective basis for exposures that are not individually significant), are grouped with other financial assets with similar characteristics, which are then assessed for impairment on a portfolio (collective) basis for any impairment that has been incurred but not yet reported ("IBNR").

3. Significant Accounting Policies (CONTINUED)

3.6. Financial Instruments (CONTINUED)

Impairment of Financial Assets (CONTINUED)

1) Loans and Receivables (CONTINUED)

In October 2016, the Bank implemented a new counter of days past due for the purpose of impairment allowance and provision calculation in accordance with the requirements of IFRS. In September 2017, in accordance with the Decision on the Calculation of Capital of Banks, the Bank implemented a new materiality threshold. However, in December 2017, the local regulator adopted an amendment to the Decision on the Calculation of Capital of Banks, which defined a new materiality threshold, i.e., resumed the materiality threshold that was in force until September 2017 If both changes are taken into account, then they did not have a significant impact on the provisioning charge.

If a loan is irrecoverable, all the legal procedures have been completed and the final amount of the loss is known, the loan is directly written off. If, in the subsequent period, the amount of impairment loss decreases and the decrease can be directly linked to an event that has occurred after the write-off, the amount written-off or the credit loss provision is then reversed and shown as income in the statement of comprehensive income. Write-off of irrecoverable receivables is performed based on the relevant decision of the Credit Committee, and in accordance with court decisions, agreements between interested parties and the Bank's assessments.

In accordance with local regulations, the Bank also calculates credit loss provisions according to the Banking Agency of the Republic of Srpska ("BARS") regulations. Loans, receivables and other financial assets of the Bank are classified into categories prescribed by BARS according to the expected recoverability determined on the basis of the number of days past due, an assessment of the debtor's financial position and the quality of the collateral. The assessed amount of specific provisions for potential losses (regulatory reserve for credit losses) is calculated applying percentages prescribed by BARS. General regulatory provisions are calculated at the rate of 2% according to those regulations.

If general and specific credit loss provisions calculated in compliance with BARS regulations are higher than impairment allowances and provisions calculated in compliance with IFRS requirements and the opening balance of the regulatory reserves, such difference represents shortfall regulatory reserves for credit losses.

When calculating the regulatory capital, the amount of the shortfall reserves for credit losses under regulatory requirements and classification criteria represents s deductible item, i.e., they are subject to regulatory adjustments.

2) Available-for-Sale Financial Assets

At each reporting date, the Bank reviews whether there is objective evidence of impairment of individual financial assets or groups of financial assets.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any such evidence exists for the available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of comprehensive income, is transferred from other comprehensive income to the profit or loss and recognized within the loss for the period.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized within the loss for the current period, the impairment loss is reversed to the profit for the current period. However, any additional increase in the fair value of equity instruments available for sale, whose value was previously impaired, is recognized directly in other comprehensive income.

3. Significant Accounting Policies (CONTINUED)

3.6. Financial Instruments (CONTINUED)

Impairment of Financial Assets (CONTINUED)

3) Financial Assets Held to Maturity

Impairment losses are recognized as the difference between the carrying value of the financial asset and the present value of expected future cash flows discounted by the current market interest rate for similar financial assets. Impairment losses on these instruments, recognized in the statement of comprehensive income, are not subsequently reversed through the statement of comprehensive income.

Derecognition

A financial asset is derecognized when the Bank loses control (in full or in part) over the contractual rights over that financial asset, which occurs when the rights are realized, surrendered or have expired.

Available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss and financial assets held to maturity are derecognized as at the trading date.

Loans and receivables and other financial liabilities are derecognized at the date that they are transferred or ceded by the Bank or when the liability ceases to exist.

The Bank derecognizes financial liabilities only when a financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the contractual terms of a financial liability change, the Bank will cease recognizing such a liability and will instantaneously recognize a new financial liability, with new terms and conditions.

Fair Value Measurement Principles

Fair values of financial assets and financial liabilities traded in active markets are based on the quoted market prices. For all other financial instruments, the Bank determines fair values using fair value assessment (valuation) techniques.

Valuation techniques for fair value involve models of cash flow discounting to the net present value, comparison to the similar instruments with identifiable market prices and other valuation techniques. Assumptions and inputs used in valuation techniques include risk-free and key policy and reference interest rates, credit margins, prices of shares and bonds, FX rates, prices of indices and other variables and their correlations. The objective of the valuation techniques is to compute the fair value that best reflects the price of a financial instrument as at the reporting date, i.e., the price that would be determined by other market participants under the normal market conditions.

Upon fair value calculation, the Bank takes into account fair value hierarchy rules prescribed by IFRS 13, which reflect the significance of inputs used in the valuation process. Each instrument is assessed individually in detail. Levels of fair value hierarchy are determined based on the lowest level of inputs relevant for determining the fair value of an instrument.

Fair Value Assessment Models

In accordance with IFRS 13, financial instruments measured at fair value are categorized in three levels of fair value hierarchy, as follows:

- Level 1 – instruments that are measured by means of active market quoted prices. The fair value of such instruments can be determined directly based on prices quoted in active liquid markets.
- Level 2 – instruments that are measured by means of valuation techniques using available market inputs. The fair value of such instruments can be determined by comparison to similar instruments traded in active markets or using inputs that are all available (i.e., observable) in the market.
- Level 3 – instruments that are measured by means of valuation techniques using unavailable (i.e., unobservable) market inputs. The fair value of such instruments cannot be determined directly using available market information but requires application of different valuation techniques.

3. Significant Accounting Policies (CONTINUED)

3.6. Financial Instruments (CONTINUED)

Debt Securities

Debt securities are measured through a two-phase process dependent on the liquidity of the relevant market. Liquid instruments in active markets are measured at market value (mark to market) and are therefore classified into Level 1 of the fair value hierarchy. Instruments not traded in active markets are measured using models that make the most use of the relevant observable inputs and the least use of the inputs unobservable in the market. Given the aforesaid, depending on the significance of unobservable inputs, bonds are classified in either Level 2 or Level 3.

Specific Instruments

a) Financial Derivatives

The Bank uses derivative financial instruments for optimum hedging of its exposures to foreign exchange and interest rate risks arising from operating, financing and investing activities. The Bank does not hold or issue derivative financial instruments for speculative trading purposes.

Financial derivatives include foreign exchange forward and swap contracts, which are both initially and subsequently recognized at fair value. Market values are obtained by applying various valuation techniques, including discounted cash flow models.

All derivatives are presented as financial assets when their market fair value is positive and as financial liabilities when it is negative. Changes in the fair market value of financial derivatives are recorded as gains or losses.

b) Cash and Cash Equivalents

Cash and cash equivalents include: cash, cheques in the process of collection and cash deposited with the Central Bank (in excess of the amount of the obligatory reserve).

c) Obligatory Reserve Held with the Central Bank

The minimum obligatory reserve held with the Central Bank is presented separately and represents the amount of the funds that the Bank is obligated to realize during each decade as the average daily balance on the reserves account, and which is determined based on the prescribed percentages of the average daily balances of the appropriate types of deposits in the previous decade (Note 18).

d) Loans and Receivables due from Banks

Loans and receivables due from banks are measured at amortized cost less impairment losses. Funds held on accounts with other banks are also included in the loans and receivables due from banks.

e) Loans and Receivables due from Customers

Loans to customers are presented net of impairment allowances to reflect the estimated recoverable amounts.

f) Equity Securities

Equity securities are classified as available-for-sale financial assets and are carried at fair value, unless there is a reliable measure of the fair value, in which case they are stated at cost, less any impairment.

g) Debt Securities

Debt securities are classified as available-for-sale financial assets or financial assets held to maturity depending on the purpose for which those debt securities were acquired.

3. Significant Accounting Policies (CONTINUED)

3.6. Financial Instruments (CONTINUED)

Specific Instruments (CONTINUED)

h) Current Accounts and Deposits of Banks and Customers

Current accounts and deposits are classified as other liabilities and are initially measured at fair value less transaction costs and subsequently stated at their amortized cost using the effective interest method.

i) Borrowings

Interest-bearing borrowings are classified as other financial liabilities and are initially recognized at fair value less transaction costs and subsequently stated at amortized cost using the effective interest method.

j) Financial Guarantees and Loan Commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of its amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable).

Loan commitments are firm commitments to approve loans under pre-specified terms and conditions.

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting regulations, or for gains and losses arising from a group of similar transactions such as within the Bank's trading activity.

3.7. Property and Equipment

(a) Recognition and Measurement

Property and equipment are tangible assets that are held for use in the supply of services or for other administrative purposes.

Property and equipment are presented at historical or assumed cost less accumulated depreciation and impairment losses. The historical cost includes the costs directly related to property acquisition.

Equipment is measured at cost less accumulated depreciation and impairment.

Subsequent Costs

Cost includes the invoiced amount of purchased assets increased by all costs incurred until the moment of placing the new assets into use. Subsequent costs are included in the book value of the asset or recognized as a separate asset, as appropriate, only when it is probable that the Bank will have future economic benefits from this asset and the value of this asset can be reliably measured. All other repair and maintenance costs are charged to the statement of profit or loss during the period in which they are incurred.

3. Significant Accounting Policies (CONTINUED)

3.7. Property and Equipment (CONTINUED)

(b) Depreciation

Depreciation is calculated for all assets, except land and assets not yet placed into use, on a straight-line basis in order to write-off the cost of assets over their estimated useful lives.

The residual value of assets and estimated useful lives are reviewed at each reporting date.

Gains or losses on the disposal of assets are determined as the difference between the sales/disposal proceeds and the net carrying value and are recorded within other operating income or other operating expenses.

Depreciation rates used for property and equipment are set out below:

	2017	2016
Buildings	2.0% - 5.0%	2.0% - 5.0%
Electronic equipment and systems	12.5% - 25.0%	12.5% - 25.0%
Office furniture and equipment	12.5% - 20.0%	12.5% - 20.0%
Other	12.5% - 25.0%	12.5% - 25.0%
Leasehold improvements	20.0%	20.0%

3.8. Intangible assets

Intangible assets are measured at cost less accumulated amortization and impairment, if any. Cost includes all costs directly attributable to the acquisition of the assets.

Intangible assets, with the exception of intangible assets in progress, are amortized on a straight-line basis over their estimated useful economic lives. Useful life is reviewed and adjusted, if necessary, at each reporting date.

Amortization rates used for intangible assets are set out below:

	2017	2016
Intangible assets – software and licenses	20.0%-25.0%	20.0% - 25.0%

3.9. Impairment of Non-Financial Assets

The net carrying values of intangible assets in progress and intangible assets with indefinite useful lives are tested for impairment and their recoverable amounts are estimated whenever there are indications of impairment or at least annually.

The net carrying value of other non-financial assets of the Bank (other than deferred tax assets) are tested for impairment at each statement of financial position date in order to determine whether there are circumstances indicating impairment. If the existence of such indications is established, the recoverable amount is estimated. An impairment loss is recognized in the statement of comprehensive income whenever the carrying amount of an asset exceeds its recoverable amount.

3. Significant Accounting Policies (CONTINUED)

3.9. Impairment of Non-Financial Assets (CONTINUED)

The recoverable amount of a non-financial asset is the higher of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For assets not generating independent cash flows, their recoverable amount is determined together with that of a cash generating unit, with which those assets are associated.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, taking into account depreciation charge, if no impairment loss had been recognized.

3.10. Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made, or as required by law in the case of provisions for unidentified losses on off-balance-sheet credit risk exposures in accordance with regulations.

Provisions for liabilities and charges are maintained at the level that the Bank's management considers sufficient for absorption of losses. The management determines the sufficiency of provisions on the basis of insight into specific items, current economic circumstances, risk characteristics of certain transaction categories, as well as other relevant factors. Provisions are released only for such expenditure in respect of which provisions were recognized at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

3.11. Equity

Share Capital

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

Reserves from Profit

Reserves from profit were formed through the distribution of the net profits from prior years.

According to the Companies Act, upon allocation of profit according to the annual accounts, shareholding companies in the Republic of Srpska are required to allocate minimum 5% of their annual profit to reserves from profit until the amount of such reserves reaches the level of 10% of the company's shareholding capital.

Share Premium

Share premium represents the accumulated positive difference between the nominal value of the issued shares and the paid-in amount.

Regulatory Reserve for Credit Losses

As explained in Note 3.6, regulatory reserve for credit losses represents the positive difference between the general and special provisions calculated in accordance with BARS regulations and the value of impairment and provisions calculated in accordance with the IFRS requirements as at January 1, 2010, i.e., as at the date of the first-time adoption of IAS and IFRS in the Republic of Srpska.

3. Significant Accounting Policies (CONTINUED)

3.11. Kapital (CONTINUED)

Fair Value Reserves

The fair value reserves represents the changes in the fair value of AFS financial assets, net of related deferred taxes.

Dividends

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

Accumulated Profit (Retained Earnings)

Retained earnings include retained and unallocated earnings that can be distributed in the ensuing period.

3.12. Commitments and Contingent Liabilities

In the regular course of business, the Bank enters into contingent financial commitments, which are recorded off-balance sheet and primarily comprise guarantees, letters of credit, undrawn frame loan facilities and credit card loans. Such financial commitments are recorded in the Bank's statement of financial position if and when they become payable.

3.13. Managed Funds for and on Behalf of Third Parties (Consignment)

The Bank manages funds for and on behalf of third parties. These funds do not constitute part of the Bank's assets, and, therefore, they are excluded from the statement of financial position. The Bank receives fee income for providing these services and does not bear any credit risk.

3.14. Segment Reporting

An operating segment represents portion of assets, liabilities and business activities (products and services) subject to risks and benefits different from those in other operating segments. A geographic segment generates products or services within a specific economic environment that are subject to risks and benefits different from those operating in other economic environments.

The Bank has identified three main segments: Corporate and Investment Banking, Retail and Other. Basic information per segment is based on the internal reporting structure of operating segments. Segment results are measured by applying an internal funding price (Note 5).

3.15. Employee Benefits

a) Employee Salaries

Gross salary costs and mandatory social security contributions are charged to the statement of profit or loss as incurred. For defined pension contribution plans, the Bank pays contributions in the prescribed amounts to the obligatory pension funds managed by state-owned management companies. These payroll contributions are recognized in the statement of profit or loss upon payroll calculation.

3. Significant Accounting Policies (CONTINUED)

3.15. Employee Benefits (CONTINUED)

b) Jubilee Awards

The Bank pays out jubilee awards to its employees. The liabilities thereof are estimated using the projected unit credit method. The projected unit credit method takes into consideration each year of service with the Bank, where the sum of all the particular units is the final liability, which is measured individually for each unit. Liabilities are measured at present values of estimated future cash flows discounted at an econometrically modelled interest rate, which is more adequate in the existing market conditions than the interest rate on Government long-term debt securities. Jubilee awards are paid out in the amount of one average salary paid by the Bank in the month preceding the payment for the completion of 20 years of service, or two average salaries paid by the Bank for the completion of 30 years of service with the Bank.

c) Retirement Benefits

In accordance with internal regulations on salaries, the Bank pays retirement benefits to employees upon retirement in the amount of two average monthly salaries of the vesting employee. Calculation of long-term provisions for employee retirement benefits is performed annually by a certified actuary using the projected unit credit method. The projected unit credit method takes into consideration each year of service with the Bank, where the sum of all the particular units is the final liability which is measured individually for each unit. Liabilities are measured at present values of estimated future cash flows discounted at an econometrically modeled interest rate, which is more adequate in the existing market conditions than the interest rate on Government long-term debt securities.

3.16. Dividend Income

Dividend income is recognized in the statement of profit or loss when the Bank's right to receive dividends has been established.

3.17. Earnings per Share

Earnings per share (EPS) are calculated by dividing the profit or loss for the current period attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

3.18. Leases

Leases where the Bank as a lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. At the reporting date, the Bank had no finance leases. All other leases are classified as operating leases. Payments made under operating leases are recognized in the statement of profit or loss on a straight-line basis over the lease term.

4. Significant Accounting Estimates and Judgments

The Bank makes estimates and judgments about uncertain events, including estimates and judgments about the future. Such accounting assumptions and estimates are regularly reviewed and based on historical experience and other factors such as: expected course of future events that can be realistically assumed in the existing circumstances, but in spite of this, necessarily represent sources of uncertainty.

The calculation and estimation of impairment losses in the Bank's loan portfolio represent the major source of accounting estimate uncertainty. This and other key sources of estimate uncertainty that pose a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

a) Impairment Losses on Loans and Receivables

The Bank monitors the creditworthiness of its customers on an ongoing basis. The need to impair the Bank's on and off-balance sheet exposures to credit risk is assessed on a monthly basis.

Impairment losses are recognized mainly against the carrying values of loans to legal entities (corporate) and individual (retail) customers (Note 20) and as provisions for liabilities and costs arising from off-balance sheet exposure to customers, mainly in the form of guarantees and letters of credit and approved unused loans and guarantees (Note 27).

Impairment losses are also considered for credit risk exposures to banks and for other assets not carried at fair value, where the primary risk of impairment is not the credit risk.

Financial Assets Carried at Amortized Cost

The Bank assesses impairment on an individual basis for all legal entities exposures where objective evidence of impairment exists and private individuals exposures that are materially significant.

Individual exposures that are not materially significant but exhibit objective evidence of receivables' impairment are assessed for impairment on a group (collective or portfolio) basis. All exposures for which no impairment losses were confirmed are assessed for impairment on a group (portfolio) basis (generic "IBNR" provisions).

All exposures classified as default exposures are regarded as having objective evidence of impairment. According to Basel III standard, exposures are in the default status when over 90 days past due in liability settlement and/or the customer is unable to settle at least one of its credit liabilities in full without Bank resorting to the collection measures.

For legal entities and private individuals exposures, the Bank determines the default status at the debtor level taking into account all the debtor's exposures. Counting of the number of days past due in liability settlement commences when liabilities matured at the individual borrower level exceed the materiality threshold defined. Materiality threshold for legal entities equals the liabilities matured in the amount of 2.5% of the total exposure of the customer and BAM 500. Materiality threshold for individuals equals the liabilities matured in the amount of 1% of the total exposure of the customer and BAM 20.

In estimating impairment losses on a group basis (portfolio approach), the Bank applies the following rules:

- future cash flows of a homogenous segment/bucket are estimated based on the historical loss movements of assets with similar credit risk characteristics,
- historical loss rates are applied to those homogenous segments/buckets that are defined in a manner consistent with the segments/buckets the rates relate to,
- movements in historical loss rates are adjusted based on the currently available inputs so that it is consistent with the current market conditions and
- methodology and assumptions used in estimating the expected future cash flows are reviewed on an ongoing basis.

4. Significant Accounting Estimates and Judgments (CONTINUED)

a) Impairment Losses on Loans and Receivables (CONTINUED)

Financial Assets Carried at Amortized Cost (CONTINUED)

The Bank estimates impairment losses in cases where it assesses that the observable data indicates the likelihood of a measurable decrease in the estimated future cash flows of an asset or a portfolio of assets. Evidence includes irregular repayment or other indicators of financial difficulties of borrowers, unfavorable changes in the economic conditions in which the borrowers operate, and changes in the value or collectability of collateral instruments when these changes can be associated with the above-mentioned breach of terms.

	Note	December 31, 2017 BAM '000	December 31, 2016 BAM '000
Breakdown of impairment allowances (IFRS)			
Impairment allowance for loans to customers	*20b*	73,255	71,686
Provisions for off-balance sheet contingent liabilities	*27*	1,596	1,474
		74,851	**73,160**
Impairment allowance for interest and fee receivables	*20b*	3,308	3,383
Impairment allowance for other assets	*24*	1,373	525
Impairment allowance for loans and receivables		**79,532**	**77,068**
Impairment of available-for-sale financial assets		-	87
Total impairment losses		**79,532**	**77,155**

In addition to the above presented impairment allowance calculated and recognized in accordance with IFRS, the Bank also calculates impairment in accordance with BARS regulations, where the positive difference between the sum of IFRS impairment allowances and the opening balance of regulatory reserves is recognized as shortfall reserve for credit losses as per regulatory requirement.

The following table summarizes impairment allowances and provisions calculated in accordance with BARS regulations:

	December 31, 2017 BAM '000	December 31, 2016 BAM '000
Breakdown of impairment allowances (BARS)		
Impairment allowance for loans to customers	73,121	78,148
Provisions for off-balance sheet contingent liabilities	4,149	3,855
	77,270	**82,003**
Impairment allowance for interest and fee receivables	3,249	3,398
Impairment allowance for other assets	3,053	899
Total impairment losses	**83,572**	**86,300**

4. Significant Accounting Estimates and Judgments (CONTINUED)

a) Impairment Losses on Loans and Receivables (CONTINUED)

Financial Assets Carried at Amortized Cost (CONTINUED)

Shortfall regulatory reserve for credit losses:

	December 31, 2017 BAM '000	December 31, 2016 BAM '000
Impairment allowances under BARS	83,572	86,300
Impairment allowances under IFRS	(79,532)	(77,155)
Opening balance of regulatory reserve	(3,496)	(3,496)
Shortfall regulatory reserve	**544**	**5,649**

The opening balance of regulatory reserves amounting to BAM 3,496 thousand represents the difference between the total calculated regulatory reserves and impairment allowances and provisions as per IAS and IFRS methodology upon initial adoption of these standards in the Republic of Srpska (January 1, 2010).

The Bank takes into consideration the combined effect of several events when assessing impairment and uses its experience in making judgments in cases where the observable data required to estimate impairment is limited.

At year-end, the gross value of specifically impaired loans and receivables (non-performing loans – NPL) and the rates of impairment loss recognized were as follows:

	December 31, 2017 BAM '000			December 31, 2016 BAM '000		
	Legal entities	Private individuals	Total	Legal entities	Private individuals	Total
Gross exposure	39,582	29,992	**69,574**	48,008	30,627	**78,635**
Impairment	37,041	24,832	**61,873**	37,901	24,334	**62,235**
Impairment rate	93.58%	82.80%	**88.93%**	78.9%	79.5%	**79.1%**

Each additional increase in the impairment rate of 1 percentage point of the gross non-performing exposure presented above as at December 31, 2017, would have resulted in the recognition of an additional impairment loss of BAM 696 thousand (2016: BAM 786 thousand).

In addition to separately identified losses for NPLs on an individual and portfolio basis, as explained in the paragraph above, the Bank also recognizes impairment losses that are known to exist at the reporting date, but which have not yet been specifically recognized (IBNR, portfolio impairment).

As at December 31, 2017 the amount of impairment losses assessed on a portfolio basis (IBNR provisions) amounted to BAM 11,382 thousand (2016: BAM 9,451 thousand) of the relevant on-balance sheet exposure. Total IBNR provision amounted to 1.3% (2016: 1.1%) of the net loans to customers.

b) Taxation

The Bank recognizes tax liabilities in accordance with the tax regulations of the Republic of Srpska and Brčko District. Tax returns are subject to the approval of the tax authorities, which are entitled to conduct subsequent inspection of taxpayers' records.

c) Regulatory Requirements

The Banking Agency of the Republic of Srpska is authorized to perform regulatory inspection of the Bank's operations and to request adjustments to the carrying values of assets and liabilities in accordance with the relevant regulations.

Notes to the Financial Statements (CONTINUED)

4. Significant Accounting Estimates and Judgments (CONTINUED)

d) Litigation

The Bank performs an individual assessment of all court cases and creates provisions according to the assessment. The assessment is performed by a special Commission of three members, two of whom are employees of the Bank's Legal Affairs, and one is from the Special Credit Management. The managers of Legal Affairs and Risk Management verify proposals for provisions after the assessment, and the decision on creating the provisions is made by the Bank's Management Board.

There are 23 lawsuits instigated against the Bank with damage claims filed. According to the Decision of the Bank's Management Board, at the proposal of the Commission for risk assessment of liabilities for litigations against the Bank, for the suits that the Bank believes could be lost or significant costs may be incurred thereon, provisions were formed in the total amount of BAM 1,803 thousand (2016: BAM 1,773 thousand), out of which the amount of BAM 81 thousand (2016: BAM 185 thousand) relates to labor suits and BAM 1,322 thousand (2016: BAM 1.587 thousand) to other legal suits (Note 28).

5. Segment Reporting

Segments recognized for the purposes of segment reporting in accordance with IFRS 8 comprise the following:

1. "Retail": private individuals and small entrepreneurial businesses;
2. "Corporate and Investment Banking": large and medium-sized companies, state and public sector;
3. "Other": capital and reserves, Assets and Liability Management, other centralized services and other assets and liabilities not associated with other segments.

Segmental information is presented in accordance with internal Bank's management reports and reconciled with the financial statements within these notes to the financial statements.

When measuring operating results (P&L), internal funding prices are applied based on specific prices of products and services reflecting currencies and maturities in accordance with the methodology of UniCredit Group (the "Group").

The methodology for allocation of revenues and costs to segments is consistent with the previous year.

5. Segment Reporting (CONTINUED)

Statement of profit or loss and other comprehensive income by segment

YEAR ENDED DECEMBER 31, 2017	Corporate & Investment Banking BAM '000	Retail BAM '000	Other BAM '000	Total by segment reports BAM '000	Adjust-ments BAM '000	Total by financial reports BAM '000
Net interest income	19,778	26,717	4,227	50,722	-	50,722
Net fee and commission income	3,968	10,855	(510)	14,313	(1)	14,312
Dividend and profit sharing income	-	-	48	48	-	48
Net foreign gains/losses on translation of monetary assets and liabilities	904	612	166	1,682	(167)	1,515
Other operating income/expenses*	9	8	(385)	(368)	368	-
Gains/losses on investments	-	-	-	-	166	166
Total operating income	**24,659**	**38,192**	**3,546**	**66,397**	**366**	**66,763**
Total operating expenses	**(5,407)**	**(23,926)**	**(615)**	**(29,948)**	**(1,485)**	**(31,433)**
Profit before impairment and provisions	**19,252**	**14,266**	**2,931**	**36,449**	**(1,119)**	**35,330**
Net impairment losses/gains and provisions for credit risk	(2,403)	(3,601)	-	(6,004)	-	(6,004)
Provisions for risks and expenses	(825)	(1,174)	(31)	(2,030)	1,580	(450)
Impairment losses on property and equipment*	-	-	22	22	-	22
Other operating income and expenses	-	-	-	-	(462)	(462)
Profit before tax	**16,024**	**9,491**	**2,922**	**28,437**	**(1)**	**28,436**
Income tax expense	(1,500)	(888)	(274)	(2,662)	1	(2,661)
Profit for the year	**14,524**	**8,603**	**2,648**	**25,775**	**-**	**25,775**
Other comprehensive income, net of income tax	**-**	**-**	**-**	**-**	**-**	**-**
Net changes in fair value reserves	-	-	(133)	(133)	-	(133)
Total comprehensive income for the year	**14,524**	**8,603**	**2,515**	**25,642**	**-**	**25,642**

** Segment report line item*

5. Segment Reporting (CONTINUED)

Statement of Profit or Loss and Other Comprehensive Income by Segment (CONTINUED)

YEAR ENDED DECEMBER 31, 2016	Corporate & Investment Banking BAM '000	Retail BAM '000	Other BAM '000	Total by segment report BAM '000	Adjustments BAM '000	Total by financial report BAM '000
Net interest income	19,839	24,526	4,599	48,964	-	48,964
Net fee and commission income	3,321	10,033	(362)	12,992	-	12,992
Dividend and profit sharing income	-	-	3	3	-	3
Net foreign gains/losses on translation of monetary assets and liabilities	649	669	-	1,318	-	1,318
Other operating income/expenses*	-	(1)	(164)	(165)	165	-
Gains/losses on investments	-	-	-	-	-	-
Total operating income	**23,809**	**35,227**	**4,076**	**63,112**	**165**	**63,277**
Total operating expenses	**(5,379)**	**(23,710)**	**-**	**(29,089)**	**(1,409)**	**(30,498)**
Profit before impairment and provisions	**18,430**	**11,517**	**4,076**	**34,023**	**(1,244)**	**32,779**
Net impairment losses/gains and provisions for credit risk	(2,721)	(5,063)	-	(7,784)	-	(7,784)
Provisions for risks and expenses	(411)	(1,004)	(181)	(1,596)	1,493	(103)
Impairment losses on property and equipment*	-	142	-	142	-	142
Other operating income and expenses	-	-	-	-	(249)	(249)
Profit before tax	**15,298**	**5,592**	**3,895**	**24,785**	**-**	**24,785**
Income tax expense	(1,530)	(559)	(516)	(2,605)	203	(2,402)
Profit for the year	**13,768**	**5,033**	**3,379**	**22,180**	**203**	**22,383**
Other comprehensive income, net of income tax						
Net changes in fair value reserves	-	-	460	460	-	460
Total comprehensive income for the year	**13,768**	**5,033**	**3,839**	**22,640**	**203**	**22,843**

** Segment report line item*

Income and results per segment presented in the tables above (for the years ended December 31, 2017 and 2016) represent income generated from products sold and services rendered to customers within these segments. Inter-segment revenues have been eliminated.

Accounting policies of the operating segments are identical to the Bank's accounting policies described in Note 3. Segment profit represents the profit of each segment with included all costs allocated thereto based on the revenues earned by each separate segment. The aforesaid is the criterion used for reporting to the managers in charge of key decision making for the purpose of allocating adequate resources to the segments and analysis of their results.

The Bank's revenues from its core services are disclosed in detail in Notes 6 and 8 to the financial statements.

5. Segment Reporting (CONTINUED)

Statement of Financial Position by Segment

AS OF DECEMBER 31, 2017	Corporate & Investment Banking BAM '000	Retail BAM '000	Other BAM '000	Total by segment reports BAM '000	Adjustments BAM '000	Total by financial reports BAM '000
Assets						
Cash and cash equivalents	-	-	170,568	170,568	-	170,568
Obligatory reserve with the Central Bank	-	-	116,002	116,002	-	116,002
Loans and receivables due from banks	-	-	100,444	100,444	-	100,444
Financial assets available for sale	152,892	-	16,650	169,542	-	169,542
Financial assets at fair value through profit or loss	-	-	10	10	-	10
Loans and receivables due from customers	450,289	445,473	-	895,762	-	895,762
Property and equipment	-	-	16,468	16,468	-	16,468
Intangible assets	-	-	5,887	5,887	-	5,887
Other assets	-	-	5,997	5,997	-	5,997
Deferred tax assets	-	-	16	16	-	16
Total assets	**603,181**	**445,473**	**432,042**	**1,480,696**	**-**	**1,480,696**
Liabilities						
Deposits and borrowings due to banks	-	-	395,901	395,901	-	395,901
Deposits and borrowings due to customers	422,569	441,059	-	863,628	-	863,628
Financial liabilities at fair value through profit or loss	-	-	621	621	-	621
Other liabilities	-	-	16,925	16,925	-	16,925
Provisions for liabilities and costs	-	-	2,066	2,066	-	2,066
Current income tax liability	-	-	417	417	-	417
Deferred income tax liability	-	-	16	16	-	16
Total liabilities	**422,569**	**441,059**	**415,946**	**1,279,574**	**-**	**1,279,574**
Share capital and reserves	-	-	175,347	175,347	-	175,347
Net profit for the year	14,524	8,603	2,648	25,775	-	25,775
Total equity and reserves	**14,524**	**8,603**	**177,995**	**201,122**	**-**	**201,122**
Total liabilities, equity and reserves	**437,093**	**449,662**	**593,941**	**1,480,696**	**-**	**1,480,696**

5. Segment Reporting (CONTINUED)

Statement of Financial Position by Segment (CONTINUED)

AS OF DECEMBER 31, 2016	Corporate & Investment Banking BAM '000	Retail BAM '000	Other BAM '000	Total by segment reports BAM '000	Adjust-ments BAM '000	Total by financial reports BAM '000
Assets						
Cash and cash equivalents	-	-	101,815	101,815	-	101,815
Obligatory reserve with the Central Bank	-	-	97,146	97,146	-	97,146
Loans and receivables due from banks	-	-	165,408	165,408	-	165,408
Financial assets available for sale	130,214	-	25,681	155,895	-	155,895
Financial assets at fair value through profit or loss	-	-	534	534	-	534
Loans and receivables due from customers	432,815	421,868	-	854,683	-	854,683
Property and equipment	-	-	16,192	16,192	-	16,192
Intangible assets	-	-	4,566	4,566	-	4,566
Other assets	-	-	3,806	3,806	-	3,806
Deferred tax assets	-	-	3	3	-	3
Total assets	**563,029**	**421,868**	**415,151**	**1,400,048**	**-**	**1,400,048**
Liabilities						
Deposits and borrowings due to banks	-	-	397,376	397,376	-	397,376
Deposits and borrowings due to customers	390,272	399,945	-	790,217	-	790,217
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Other liabilities	-	-	23,458	23,458	1	23,459
Provisions for liabilities and costs	-	-	2,026	2,026	-	2,026
Current income tax liability	-	-	504	504	(204)	300
Deferred income tax liability	-	-	-	-	-	-
Total liabilities	**390,272**	**399,945**	**423,364**	**1,213,581**	**(203)**	**1,213,378**
Share capital and reserves	-	-	164,287	164,287	-	164,287
Net profit for the year	13,768	5,033	3,379	22,180	203	22,383
Total equity and reserves	**13,768**	**5,033**	**167,666**	**186,467**	**203**	**186,670**
Total liabilities, equity and reserves	**404,040**	**404,978**	**591,030**	**1,400,048**	**-**	**1,400,048**

6. Interest Income

a) Breakdown by source:

	Year Ended December 31, 2017 BAM '000	2016 BAM '000
Private individuals	30,216	30,108
Legal entities and entrepreneurs	14,561	16,353
Banks and financial institutions	(48)	127
Public sector	16,543	16,867
	61,272	**63,455**

b) Breakdown by product/banking operation:

	Year Ended December 31, 2017 BAM '000	2016 BAM '000
Loans and receivables due from customers	53,270	55,560
Loans and receivables due from banks	27	178
Obligatory reserve with the Central Bank	(189)	(75)
Debt securities	8,164	7,792
	61,272	**63,455**

7. Interest Expenses

a) Breakdown by recipient:

	Year Ended December 31, 2017 BAM '000	2016 BAM '000
Private individuals	3,809	4,592
Legal entities and entrepreneurs	2,155	2,757
Banks and other financial institutions	2,287	4,319
Public sector	163	229
Other organizations	2,136	2,594
	10,550	**14,491**

b) Breakdown by product/banking operation:

	Year Ended December 31, 2017 BAM '000	2016 BAM '000
Current accounts and deposits – private individuals	3,809	4,592
Current accounts and deposits – legal entities	1,375	1,891
Current accounts and deposits – banks	1,806	3,900
Current accounts and deposits – other financial institutions	1,859	2,194
Borrowings from banks	1,694	1,907
Other	7	7
	10,550	**14,491**

8. Fee and Commission Income

	Year Ended December 31,	
	2017	2016
	BAM '000	BAM '000
Domestic payment transactions	6,440	5,709
Foreign payment transactions	1,986	1,929
Payment of foreign pensions and remittances of individuals	1,703	1,666
Issuance of guarantees and other sureties	1,370	1,324
Card operations	1,833	1,651
Loan origination fees	1,846	1,419
Foreign exchange spot trading gains and cash operations	1,660	987
Other fees and commissions	440	427
	17,278	**15,112**

9. Fee and Commission Expenses

	Year Ended December 31,	
	2017	2016
	BAM '000	BAM '000
Card operations	1,618	1,280
Domestic payment transactions	631	466
Foreign payment transactions	216	159
Guarantees and other sureties received	-	13
Cash operations	245	42
Loan origination/processing fees	104	92
Other fees and commissions	152	68
	2,966	**2,120**

10. Dividend and Profit Sharing Income

	Year Ended December 31,	
	2017	2016
	BAM '000	BAM '000
Dividend income	48	3
	48	**3**

11. Net Foreign Exchange Gains Upon Translation of Monetary Assets and Liabilities

	Year Ended December 31,	
	2017	2016
	BAM '000	BAM '000
Net foreign exchange gains upon translation of monetary assets and liabilities	1,515	1,318
	1,515	**1,318**

12. Personnel Expenses

	Year Ended December 31,	
	2017	2016
	BAM '000	BAM '000
Fixed payments - gross salaries	13,365	12,904
Variable payments - bonuses	1,454	1,275
Other personnel costs	618	403
Severance pays and retirement benefits	489	431
Other costs (service contracts)	113	103
Total personnel expenses	**16,039**	**15,116**

Personnel expenses include contributions for pension and disability insurance paid in 2017 in the amount of BAM 2,593 thousand (2016: BAM 2,708 thousand).

13. Other Expenses

	Year Ended December 31,	
	2017	2016
	BAM '000	BAM '000
Information & communication technology expenses	3,406	3,373
Sundry operating expenses	2,516	2,457
Real estate expenses	1,794	1,744
Consulting & professional services	1,631	1,446
Security and cash management	1,152	1,130
Advertising & marketing expenses	829	869
Back office expenses	550	610
Other personnel expenses	393	310
Indirect taxes and contributions	285	321
Loan origination and monitoring fees payable	75	48
	12,631	**12,308**

14. Net Impairment Losses and Provisions for Credit Risk

	Year Ended December 31,	
	2017	2016
	BAM '000	BAM '000
Loans and receivables due from customers (Note 20b)	5,882	7,821
Off-balance sheet items (Note 27)	122	(37)
	6,004	**7,784**

15. Provisions For Risks And Expenses

	Year Ended December 31,	
	2017	2016
	BAM '000	BAM '000
Provisions for litigations and court expenses	450	103
	450	**103**

16. Income Taxes

Income tax charged to the statement of profit or loss comprises current and deferred taxes.

a) Income tax expense recognized within the statement of profit or loss

	Year Ended December 31,	
	2017	2016
	BAM '000	BAM '000
Current income tax expense	2,645	2,402
Deferred income tax expense (Note 29)	16	-
Total	**2,661**	**2,402**

b) Reconciliation of the income tax expenses

	Year Ended December 31,	
	2017	2016
	BAM '000	BAM '000
Profit before tax	**28,436**	**24,785**
Income tax at the rate of 10%	2,844	2,479
Decrease of the income tax for deductible income	(866)	(781)
Increase of the income tax for impairment losses on loans and other assets which are not deductible for tax purposes	503	366
Increase of the income tax for other expenses not deductible for tax purposes	180	165
Adjustment to the income tax for prior years	-	173
Income tax expense	**2,661**	**2,402**
Average effective income tax rate	**9.36%**	**9.69%**

Tax regulations stipulate expenses and income recognizable for the purpose of calculation of the tax base and the amount of impairment losses on loans deductible for tax purposes to the maximum amount that is prescribed by the Banking Agency of the Republic of Srpska for B, C, D, and E categories.

Tax liabilities are recognized in accordance with the tax returns prepared by the Bank. However, the Bank may be subject to subsequent inspection by the tax authorities over a period of five years following the year for which the tax return was issued. The Bank's Management Board is not aware of any circumstances, which may give rise to a potential material liability in this respect.

17. Cash and Cash Equivalents

	December 31, 2017 BAM '000	December 31, 2016 BAM '000
Cash in domestic currency	18,022	17,143
Funds held with the Central Bank – gyro account	147,052	77,465
Cash in foreign currencies	5,494	7,207
	170,568	**101,815**

18. Obligatory Reserve with the Central Bank

	December 31, 2017 BAM '000	December 31, 2016 BAM '000
Obligatory reserve with the Central Bank in domestic currency	116,002	97,146
	116,002	**97,146**

The Central Bank of Bosnia and Herzegovina (the "Central Bank") has prescribed a method for calculating and maintaining obligatory reserves, as well as the amount and manner of payment of fees for the amount of obligatory reserve and on the amount of funds in excess of the obligatory reserve held on the account with the Central Bank.

The basis for the calculation of the obligatory reserve is the average amount of deposits and borrowed funds in BAM and foreign currencies (denominated in BAM, at the exchange rate of the Central Bank effective over the calculation period).

Until June 30, 2016, the basis for calculation of the obligatory reserve excluded funds borrowed from non-residents and deposits and loans from governments and entities (residents) intended for development projects.

The Bank was obligated to hold at least 10% of deposits and borrowed funds with contractually defined maturities of up to a year and 7% of the deposits and borrowed funds with contractually defined maturities of over a year with the Central Bank up to June 30, 2016.

From July 1, 2016 on, the Decision on Determining and Maintaining Required Reserves and Defining the Fees Payable by the Central Bank to Banks on the Amount of Reserves, which was enacted by the Governing Board of the Central Bank has defined a unique required reserve rate of 10%, which is to be applied for the required reserve calculation. The basis for calculation of the obligatory reserve excludes deposits placed with UniCredit Bank a.d. Banja Luka by domestic banks and domestic banks in bankruptcy.

In 2016 the Central Bank neither calculated nor paid any fees payable in respect of the required reserve. On the other hand, until June 30, 2016 the Central Bank calculated and paid no fees for funds exceeding the required reserve. Since July 1, 2016, the fees payable for funds in excess of the required reserve amount equaled 0.2% and were charged to the Bank.

In 2017 the Central Bank neither calculated nor paid any fees payable in respect of the required reserve. In 2017, the fees payable for funds in excess of the required reserve amount equaled 0.2% and were charged to the Bank.

19. Loans and Receivables due from Banks

	December 31, 2017 BAM '000	December 31, 2016 BAM '000
- foreign banks	97,387	160,606
- domestic banks	3,054	4,802
- outstanding interest receivables	3	-
	100,444	**165,408**

Loans and receivables due from banks totaling BAM 100,444 include the amount of BAM 28,699 thousand (2016: BAM 51,429 thousand) of loans to and receivables from related banks.

Loans and receivables due from related banks include BAM 3,000 thousand, which refers to the funds placed as cash collaterals (2016: BAM 4,800 thousand).

20. Loans and Receivables due from Customers

a) Breakdown by product

	December 31, 2017 BAM '000	December 31, 2016 BAM '000
Legal entities		
- in BAM	216,992	204,494
- in foreign currencies	79,676	124,668
- with foreign currency clause	229,091	174,271
Total gross	**525,759**	**503,433**
Impairment of loan principal amounts	(43,272)	(43,463)
	482,487	**459,970**
Private individuals		
- in BAM	164,191	166,596
- in foreign currencies	46	60
- with foreign currency clause	279,488	256,421
Total gross	**443,725**	**423,077**
Impairment of loan principal amounts	(29,983)	(28,223)
	413,742	**394,854**
Gross loans	**969,484**	**926,510**
Net loans	**896,229**	**854,824**
Interest receivables due and undue – Legal entities	3,460	3,558
Impairment of due and undue interest receivables – Legal entities	(2,561)	(2,607)
Interest receivables due and undue – Private individuals	1,281	1,279
Impairment of interest receivables due and undue – Private individuals	(747)	(776)
Collected fee not included into income – Legal entities	(403)	(337)
Collected fee not included into income – Private individuals	(1,497)	(1,258)
Loans and receivables due from customers	**895,762**	**854,683**

20. Loans and Receivables due from Customers (CONTINUED)

b) Movements on impairment allowance of loans and interest

	Loans Legal entities BAM '000	Loans Private individuals BAM '000	Interest Legal entities BAM '000	Interest Private individuals BAM '000	Total BAM '000
Balance at January 1, 2016	**40,315**	**23,757**	**2,652**	**698**	**67,422**
Net loss recognized in the statement of profit or loss (Note 14)	3,359	4,462	55	117	7,993
Write-offs	(211)	4	(100)	(39)	(346)
Balance at December 31, 2016	**43,463**	**28,223**	**2,607**	**776**	**75,069**
Net loss recognized in the statement of profit or loss (Note 14)	3,097	2,786	(2)	1	5,882
Write-offs/transfers and rounding	(3,288)	(1,026)	(44)	(30)	(4,388)
Balance at December 31, 2017	**43,272**	**29,983**	**2,561**	**747**	**76,563**

c) Geographic concentration of credit risk

Geographic credit risk concentration of the loan portfolio relates entirely to companies, individuals and other entities located in Bosnia and Herzegovina.

d) Concentration of credit risk by industry

Breakdown of the Bank's loan portfolio as at December 31, 2017 and 2016 per industry is provided in the table below:

	December 31, 2017 BAM '000	December 31, 2016 BAM '000
Loans to legal entities		
Mining and energy	41,383	33,386
Agriculture	8,483	10,145
Construction industry	29,528	33,681
Manufacturing industry	164,451	155,524
Trade	109,634	124,513
Services	1,237	2,951
Transport	7,718	4,728
Financial services	2,574	1,009
Public sector (central institutions)	90,125	87,766
Local self-government	65,993	45,777
Non-profit institutions	4,633	3,953
	525,759	**503,433**
Loans to private individuals	443,725	423,077
Total gross loans	**969,484**	**926,510**
Impairment allowance	**(73,255)**	**(71,686)**
Total net loans	**896,229**	**854,824**

The structure of the loan portfolio is regularly monitored by the Risk Management Department in order to recognize potential events that could have a significant impact on the loan portfolio (usual risk factors) and, if needed, to mitigate the Bank's exposure to certain industry sectors.

21. Financial Assets

a) Financial assets available for sale

	December 31, 2017 BAM '000	December 31, 2016 BAM '000
Equity securities		
Domestic insurance companies	8	8
Other domestic companies	101	338
Foreign companies	8	8
	117	**354**
Quoted	8	8
Unquoted	109	346
	117	**354**
Debt securities		
Municipal bonds	-	5
Bonds of the Republic of Srpska	167,327	151,842
Treasury Bills of the Republic of Srpska	2,098	3,694
	169,425	**155,541**
Quoted	169,425	155,541
Unquoted	-	-
	169,425	**155,541**
Total financial assets available for sale	**169,542**	**155,895**

Breakdown of financial assets available for sale according to fair value levels:

	Level 1 BAM '000	Level 2 BAM '000	Level 3 BAM '000	Total BAM '000
December 31, 2017				
Equity securities	-	-	117	117
Municipal bonds	-	-	-	-
Bonds of the Republic of Srpska	-	167,327	-	167,327
Treasury Bills of the Republic of Srpska	-	2,098	-	2,098
Total	**-**	**169,425**	**117**	**169,542**
December 31, 2016				
Equity securities	-	-	354	354
Municipal bonds	-	5	-	5
Bonds of the Republic of Srpska	-	151,842	-	151,842
Treasury Bills of the Republic of Srpska	-	3,694	-	3,694
Total	**-**	**155,541**	**354**	**155,895**

After collecting and analyzing detailed data on turnover and debt security prices on the market of the Republic of Srpska, it was decided on the level of UniCredit Group that debt securities in the Bank's portfolio ought to be kept within hierarchy level 2.

21. Financial Assets (CONTINUED)

External rating of debt securities

As for the external rating of debt securities, the external credit rating of the state of Bosnia and Herzegovina was applied, which according to the Agency for Credit Rating Standard & Poor's was "B / stable ", and according to Moody's Investors Service "B 3 / stable."

22. Property and Equipment

	Land and buildings BAM '000	Equipment and other assets BAM '000	Investments in progress BAM '000	Total property and equipment BAM '000
Cost				
Balance as at January 1, 2016	26,072	19,498	382	45,952
Additions	-	-	1,874	1,874
Transfers	566	963	(1,529)	-
Sales and write-offs	(1,380)	(4,632)	-	(6,012)
Balance as at December 31, 2016	**25,258**	**15,829**	**727**	**41,814**
Balance as at January 1, 2017	25,258	15,829	727	41 814
Additions	-	-	1,866	1,866
Transfers	308	423	(731)	-
Sales and write-offs	-	(968)	-	(968)
Balance as at December 31, 2017	**25,566**	**15,284**	**1,862**	**42,712**
Balance as at January 1, 2016				
Charge for the year	12,910	16,697	-	29,607
Sales and write-offs	549	1,070	-	1,619
Prodaja i otpisi	(972)	(4,632)	-	(5,604)
Balance as at December 31, 2016	**12,487**	**13,135**	**-**	**25,622**
Balance as at January 1, 2017	12,487	13,135	-	25,622
Charge for the year	555	1,035	-	1,590
Sales and write-offs	-	(968)	-	(968)
Balance as at December 31, 2017	**13,042**	**13,202**	**-**	**26,244**
Net book value:				
Balance as at December 31, 2016	**12,771**	**2,694**	**727**	**16,192**
Balance as at December 31, 2017	**12,524**	**2,082**	**1,862**	**16,468**

The carrying value of non-depreciable land within the class of land and buildings amounts to BAM 3,159 thousand (2016: BAM 3,159 thousand).

Investments in progress in the amount of BAM 1,862 thousand as of December 31, 2017 (2016: BAM 727 thousand) relate to the equipment not yet placed into use.

During 2017 there were no mortgage or pledge liens instituted over the Bank's property and equipment.

The Bank tested property for impairment as of December 31, 2017, based on which it was concluded that there was no need for impairment.

23. Intangible Assets

	Software BAM '000	Other BAM '000	Ilnvestments in progress BAM '000	Total BAM '000
Cost				
Balance as at January 1, 2016	16,733	5,315	1,390	23,438
Additions	-	-	2,597	2,597
Transfers	577	432	(1,009)	-
Sales and write-offs	(245)	(1,407)	-	(1,652)
Balance as at December 31, 2016	**17,065**	**4,340**	**2,978**	**24,383**
Balance as at January 1, 2017	17,065	4,340	2,978	24,382
Additions	-	-	2,494	2,494
Transfers	1,516	301	(1,817)	-
Sales and write-offs	(35)	(9)	-	(44)
Balance as at December 31, 2017	**18,546**	**4,632**	**3,655**	**26,833**
Accumulated amortization				
Balance as at January 1, 2016	15,168	4,846	-	20,014
Charge for the year	776	679	-	1,455
Write-offs	(245)	(1,407)	-	(1,652)
Balance as at December 31, 2016	**15,699**	**4,118**	**-**	**19,817**
Balance as at January 1, 2017	15,699	4,118	-	19,817
Charge for the year	716	457	-	1,173
Write-offs	(35)	(9)	-	(44)
Balance as at December 31, 2017	**16,380**	**4,566**	**-**	**20,946**
Net book value:				
Balance as at December 31, 2016	**1,365**	**222**	**2,978**	**4,566**
Balance as at December 31, 2017	**2,166**	**66**	**3,655**	**5,887**

Investments in progress in the amount of BAM 3,655 thousand as of December 31, 2017 (2016: BAM 2,978 thousand) relate to the software and other intangible assets not yet placed into use.

As of December 31, 2017, the Bank had no internally generated intangible assets.

24. Other Assets

	December 31, 2017 BAM '000	December 31, 2016 BAM '000
Fee receivables in local currency	198	195
Receivables for employee salary refunds	1,167	652
Receivables from card operations	3,379	1,884
Receivables based on cheque payments	14	-
Leasehold improvements	287	305
Receivables from operating activities	1,050	435
Tangible assets acquired in lieu of debt collection	585	189
Other receivables	690	671
	7,370	**4,331**
Impairment allowance	**(1,373)**	**(525)**
Total other assets	**5,997**	**3,806**

Movements on impairment allowance for other assets:

	Total BAM '000
Balance as at January 1, 2016	**521**
Net gains/(losses) recognized in the statement of profit or loss	-
Write-offs and transfers	4
Balance as at December 31, 2016	**525**
Net gains/(losses) recognized in the statement of profit or loss	451
Write-offs, transfers and rounding off	397
Balance as at December 31, 2017	**1,373**

25. Deposits and Borrowings due to Banks

	December 31, 2017 BAM '000	December 31, 2016 BAM '000
Demand deposits		
- in BAM	-	2
- in foreign currencies	310	223
	310	**225**
Term deposits		
- in BAM	18,001	49,800
- in foreign currencies	318,335	283,953
	336,336	**333,753**
Total deposits	**336,646**	**333,978**
Borrowings		
- in foreign currencies	59,255	63,398
Total borrowings	**59,255**	**63,398**
Total deposits and borrowings due to banks	**395,901**	**397,376**

Deposits and borrowings due to banks include the amount of BAM 336,336 thousand (2016: BAM 333,755 thousand), which relate to the deposits and borrowings due to related parties.

26. Deposits and Borrowings due to Customers

	December 31, 2017 BAM '000	December 31, 2016 BAM '000
LEGAL ENTITIES AND ENTREPRENEURS		
Demand deposits		
- in BAM	195,053	129,172
- in foreign currencies	63,974	58,433
	259,027	**187,605**
Term deposits		
- in BAM	51,886	48,555
- with foreign currency clause	98,480	125,096
- in foreign currencies	14,440	14,977
	164,806	**188,628**
Total deposits due to legal entities and entrepreneurs	**423,833**	**376,233**
PRIVATE INDIVIDUALS		
Demand deposits		
- in BAM	141,342	127,494
- in foreign currencies	98,580	80,242
	239,922	**207,736**
Term deposits		
- in BAM	47,311	41,696
- with foreign currency clause	41	42
- in foreign currencies	100,796	103,951
	148,148	**145,689**
Total deposits due to private individuals	**388,070**	**353,425**
TOTAL DEPOSITS	**811,903**	**729,658**
Borrowings due to customers		
- in BAM	-	-
- with foreign currency clause	42,657	48,531
- in foreign currencies	9,068	12,028
Total borrowings due to customers	**51,725**	**60,559**
Total deposits and borrowings due to customers	**863,628**	**790,217**

27. Other Liabilities

	December 31, 2017 BAM '000	December 31, 2016 BAM '000
Liabilities to employees	2,623	2,191
Advances received for foreclosure of assets - NPL	112	203
Liabilities to suppliers – trade payables	1,916	1,872
Provisions for off-balance contingent liabilities	1,596	1,474
Provisions for jubilee awards	200	208
Liabilities for realization of payment orders in the country	1,874	3,282
Liabilities based on brokerage operations	2	65
Liabilities based on non-nominated deposits	678	665
Accruals and deferred income	820	7,064
Liabilities from card operations	1,725	1,085
Liabilities for insured unpaid deposits	2,504	3,122
VAT payable	417	530
Other liabilities	2,458	1,698
	16,925	**23,459**

Movements on provisions were as follows:

	Off-balance-sheet contingent liabilities BAM '000	Jubilee awards BAM '000	Total BAM '000
Balance as at January 1, 2016	**1,512**	**208**	**1,720**
Net gain/(loss) recognized in the statement of profit or loss (Note 14)	(37)	-	(37)
Provisions released during the period and transfers	(1)	-	(1)
Balance as at December 31, 2016	**1,474**	**208**	**1,682**
Net gain/(loss) recognized in the statement of profit or loss (Note 14)	122	-	122
Provisions released during the period and transfers	-	(8)	(8)
Balance as at December 31, 2017	**1,596**	**200**	**1,796**

Gains/losses arising from reversals/charges of provisions for off-balance-sheet exposures are recognized as net impairment losses and provisions for credit risks (Note 14) while gains/losses for jubilee awards are included within personnel expenses (Note 12) within the statement of comprehensive income.

28. Provisions for Liabilities and Expenses

	December 31, 2017 BAM '000	December 31, 2016 BAM '000
Provisions for retirement benefits	263	253
Provisions for litigations	1,803	1,773
	2,066	**2,026**

Movements on provisions were as follows:

	Litigations BAM '000	Retirement benefits BAM '000	Total BAM '000
Balance as at January 1, 2016	**1,956**	**251**	**2,207**
Net gain/(loss) recognized in the statement of profit or loss (Note 15)	103	2	105
Provisions released during the period and transfers	(286)	-	(286)
Balance as at December 31, 2016	**1,773**	**253**	**2,026**
Net gain/(loss) recognized in the statement of profit or loss (Note 15)	450	12	462
Provisions released during the period and transfers	(420)	(2)	(422)
Balance as at December 31, 2017	**1,803**	**263**	**2,066**

29. Deferred Tax Assets and Liabilities

Net deferred tax assets

Deferred taxes are calculated for temporary differences according to the balance sheet liability method using the legally prescribed income tax rate of 10% (2016: 10%).

	December 31, 2017 BAM '000	December 31, 2016 BAM '000
Deferred tax assets		
Fair value reserve	16	3
Net deferred tax assets	**16**	**3**
Deferred tax liabilities		
Deferred tax liabilities based on differences in the depreciation method and different depreciation rates	(16)	-
Net deferred tax liabilities/assets	**-**	**3**

29. Deferred Tax Assets and Liabilities (CONTINUED)

Movements on deferred taxes were as follows:

	Deferred tax assets BAM '000	Deferred tax liabilities BAM '000	Net deferred tax assets BAM '000
Balance as at January 1, 2016	**61**	**-**	**61**
(Decrease)/increase in deferred tax assets/liabilities	(58)	-	(58)
Balance as at December 31, 2016	**3**	**-**	**3**
Balance as at January 1, 2017	**3**	**-**	**3**
(Decrease)/increase in deferred tax assets/liabilities	13	(16)	(3)
Balance as at December 31, 2017	**16**	**(16)**	**-**

30. Share Capital

	Ordinary shares BAM '000
Balance as at January 1, 2016	**97,055**
Changes	-
Balance as at December 31, 2016	**97,055**
Changes	-
Balance as at December 31, 2017	**97,055**
Nominal value per share (BAM)	700
Share count	138,650

As at December 31, 2017 the shareholders of the Bank comprised a single major and 62 minor shareholders; both domestic and foreign legal entities and individuals with the following equity interests:

	% of equity interest
UniCredit Bank S.p.A. Italy	**98.46%**
Minor shareholders	1.54%
	100.00%

As at December 31, 2017, members of the Bank's Supervisory Board, Audit Committee and Management Board were not in possession of any shares of the Bank.

All the Bank's shares were quoted on Banjaluka Stock Exchange. In 2017, the price per share on the last trading day at Banjaluka Stock Exchange amounted to BAM 1,185.00 (December 31, 2016: BAM 922.51).

31. Earnings per Share

	2017	2016
Total number of shares	138,650	138,650
Weighted average number of shares outstanding	138,650	138,650
Net profit in BAM '000	25,775	22,383
Basic and diluted earnings per share in BAM	**185.90**	**161.44**

In Q4 2017 the Bank paid dividend to the shareholders in the amount of BAM 11,190 thousand from the net profit for the year 2016. The total of 63 shareholders were entitled to dividend payment, and dividend per share amounted to BAM 80.71.

32. Commitments and Contingent Liabilities

	31. decembar 2017 BAM '000	December 31, 2016 BAM '000
Payment guarantees:		
- in BAM	9,067	12,315
- in foreign currencies	20,448	20,298
Performance guarantees:		
- in BAM	43,383	38,450
- in foreign currencies	21,611	10,545
Contingent liabilities for undrawn loans and guarantees :		
- in BAM	105,213	106,090
- in foreign currencies	957	701
Letters of credit in foreign currencies	4,121	1,751
Other sureties	-	-
Total	**204,800**	**190,150**

As at December 31, 2017, provisions for potential losses per commitments and contingencies amounted to BAM 1,596 thousand (2016: BAM 1,474 thousand). Movements on these provisions are presented in Note 27.

Notes to the Financial Statements (CONTINUED)

33. Transactions with Related Parties

In compliance with International Accounting Standard (IAS) 24 parties related to the Bank and the Bank's key management members are as follows:

IAS 24.19	Name	Description
IAS 24.19 (a),(b)	Parent company and entities with joint control or significant impact on the Bank	UniCredit Bank S.p.A. Italy
IAS 24.19 (c)	Subsidiaries and other entities within the same Group	Related banks and other legal entities within UniCredit Group
IAS 24.19 (c), (e)	Associates and joint ventures	The Bank did not have associates or joint ventures in 2017
IAS 24.19 (f)	Key management of the institution or its parent entity	Members of the Supervisory Board and Management Board; members of the Supervisory Board and Management Board of the parent entity, key Bank management, and persons related to the specified members
IAS 24.19 (g)	Other related parties	The Bank did not have other related parties in 2017

33. Transactions with Related Parties (CONTINUED)

Balances of assets and liabilities arising from transactions performed with members of UniCredit Group were as follows:

	December 31, 2017 BAM '000	December 31, 2016 BAM '000
Assets:		
Foreign currency demand deposits:		
- UniCredit Bank Austria AG Vienna	13,140	16,658
- UniCredit bank Srbija a.d. Beograd	3,981	3,992
- Zagrebačka banka d.d. Zagreb	431	3,412
- UniCredit Bank AG Munich	1,892	19,244
- UniCredit S.p.A. Italy	6,251	1,463
- UniCredit Bank d.d. Mostar	4	2
- UniCredit Bank Slovenia d.d.	-	1,858
	25,699	**46,629**
Term deposits:		
- UniCredit Bank d.d. Mostar	3,000	4,800
	3,000	4,800
Other receivables:		
- UniCredit Bank Austria AG Vienna	-	188
- UniCredit S.p.A. Italy	202	46
- UniCredit Bank d.d. Mostar	2	3
- UniCredit Bank Srbija a.d. Beograd	238	15
	442	**252**
Financial assets at fair value through profit and loss:		
- UniCredit Bank AG Munich	8	533
Total assets	**29,149**	**52,214**
Liabilities:		
Short-term deposits:		
- UniCredit Bank Austria AG Vienna	-	5,870
- UniCredit Bank d.d. Mostar	18,001	49,800
- UniCredit S.p.A. Italy	318,335	278,085
	336,336	**333,755**
Other liabilities:		
- UniCredit Bank Austria AG Vienna	12	116
- UniCredit Bank d.d. Mostar	27	192
- UniCredit S.p.A. Italy	616	346
- UniCredit Business Integrated Solutions Austria GmbH, Vienna	826	798
- Zagrebačka banka d.d. Zagreb	105	-
- I-FABER S.p.A.	-	-
- UniCredit Consumer Financing EAD Sofia	64	7
- UniCredit Bank Moscow AO	99	178
- UniCredit Bulbank AD Sofia	39	-
	1,788	**1,637**
Financial liabilities at fair value through profit and loss:		
- UniCredit Bank AG Munich	11	-
- UniCredit S.p.A. Italy	610	-
Total liabilities	**338,745**	**335,392**
Liabilities, net	**(309,596)**	**(283,178)**

33. Transactions with Related Parties (CONTINUED)

Income and expenses from related party transactions were as follows:

	Year Ended December 31,	
	2017	2016
	BAM '000	BAM '000
Items included in the statement of comprehensive income		
Interest income:		
- UniCredit Bank Austria AG Vienna	(7)	(14)
- UniCredit Bank d.d. Mostar	51	186
- UniCredit Bank AG Munich	(1)	(1)
- UniCredit S.p.A. Italy	9	(1)
Total interest income	**52**	**170**
Fee and commission income:		
- UniCredit Bank Austria AG Vienna	33	24
- UniCredit Bank d.d. Mostar	-	10
- UniCredit Bank Czech Republic and Slovakia a.s.	-	2
- UniCredit Bank AG Munich	1	1
- UniCredit S.p.A. Italy	5	-
Total fee and commission income	**39**	**37**
Interest expenses:		
- UniCredit Bank Austria AG Vienna	474	2,014
- UniCredit Bank d.d. Mostar	79	560
- UniCredit Bank Moscow AO	1,100	1,276
- UniCredit S.p.A. Italy	153	-
Total interest expenses	**1,806**	**3,850**
Fee and commission expenses:		
- UniCredit Bank Austria AG Vienna	1	5
- UniCredit S.p.A. Italy	20	14
- Zagrebačka banka d.d. Zagreb	231	204
- UniCredit Bank d.d. Mostar	3	-
- UniCredit Bank AG Munich	3	1
- UniCredit Business Integrated Solutions S.C.p.A Milan, Business Unit Czech Republic	85	70
Total fee and commission expenses	**343**	**294**
Operating expenses		
- UniCredit Business Integrated Solutions Austria GmbH, Vienna	1,336	1,336
- UniCredit Bank d.d. Mostar	134	132
- Zagrebačka banka d.d. Zagreb	11	11
- ZANE BH d.o.o. Sarajevo	-	1
- UniCredit S.p.A. Italy	201	94
- I-FABER S.p.A.	14	13
Total operating expenses	**1,696**	**1,587**
Expenses, net	**(3,754)**	**(5,524)**

33. Transactions with Related Parties (CONTINUED)

Remunerations paid to the members of the Bank's Supervisory and Management Boards, and other key management personnel are presented below:

	Year Ended December 31,	
	2017	2016
	BAM '000	BAM '000
Supervisory Board	**7**	**-**
Management Board	**7**	**-**
Short-term remuneration		
Gross salaries disbursed in the current year for the current year	846	768
Bonuses disbursed in the current year for the previous year - gross	99	132
Long-term remuneration		
Insurance policies paid in the current year - gross	23	29
Disbursements in the current year for prior years - gross	128	137
Total Management Board	**1,096**	**1,066**
Other key management personnel		
Short-term remuneration		
Gross salaries disbursed in the current year for the current year	646	444
Bonuses disbursed in the current year for the previous year - gross	81	83
Long-term remuneration		
Insurance policies paid in the current year - gross	20	20
Disbursements in the current year for prior years - gross	11	5
Total other key management personnel	**758**	**552**

The Supervisory Board consists of 5 members, out of which 2 are independent members, and only for those two remunerations were paid as from October 2017. Other members of the Supervisory Board are members of UniCredit Group and do not receive compensation for their work. Members of the Supervisory Board do not exercise the right to a variable remuneration in accordance with the Remuneration Policy.

Until October 31, 2017 the Bank's Management Board consisted of 4 members, whereas from November 1, 2017 there were 3 members. Other key management personnel comprise 8 employees of the Bank (2016: 7 employees of the Bank).

The amount of salaries and remuneration disbursed to members of the Management Board and key management includes the amount of BAM 343 thousand (2016: BAM 299 thousand) of contributions for pension and disability insurance with the prescribed amounts of contributions, payable to the mandatory pension funds.

Within the regular transactions, transactions with related parties are performed under fair market terms, which are deemed to be arm's length transactions, and our estimate is that the Bank bears no risk in respect of transfer prices.

33. Transactions with Related Parties (CONTINUED)

Loans and deposits, and income and expenses per loans and deposits of the members of the Bank's Supervisory Board, Management Board and other key management personnel and their related parties were as follows:

	2017 BAM '000	2016 BAM '000
Supervisory Board:		
- Loans as at December 31	-	-
- *Interest income for the year*	1	-
- Deposits as at December 31	33	-
- *Interest expense for the year*	1	-
Management Board:		
- Loans as at December 31	21	30
- *Interest income for the year*	2	-
- Deposits as at December 31	58	139
- *Interest expense for the year*	-	3
Other key management:		
- Loans as at December 31	222	209
- *Interest income for the year*	11	12
- Deposits as at December 31	188	395
- *Interest expense for the year*	5	16
TOTAL KEY MANAGEMENT:		
- Loans as at December 31	**243**	**239**
- Interest income for the year	**14**	**12**
- Deposits as at December 31	**279**	**534**
- Interest expense for the year	**6**	**19**

34. Risk Management

The Bank's management of risks assumed in operating activities is conducted through a system of strategies, policies, programs, work procedures and defined limits, which are continuously upgraded in accordance with changes in legislation, changes in business activities based on market trends and development of new products, as well as through the adoption of risk management standards of UniCredit Group (the "Group"). The Group has in place a comprehensive risk management system based on defined risk appetite, risk strategies and operating policies and procedures and set risk limits.

The Supervisory Board and Management Board of the Bank prescribe overall risk management principles and adopt risk strategies and internal bylaws covering this area. The Risk Management Board considers, and reports to the Supervisory Board, on the strategy implementation, adequacy and manner of implementation of the adopted policies and other risk management procedures, as well as adequacy and reliability of the overall risk management system.

In accordance with the Group's requirements, the Bank has implemented a standard approach to the international Basel III standard, through an IT platform, which is aligned with the requirements of this standard.

Risk management is organized into organizational units within the competence of the Chief Risk Officer:

1. Underwriting, responsible inter alia for credit fraud prevention,

2. Credit Risk Monitoring,

3. Special Credit Management, and

4. Strategic, Market and Operational Risk Management.

Within Special Credit Management there are two departments: Corporate Special Credit Management and Retail Special Credit Management.

Within Strategic, Market and Operational Risk Management, there are also two departments: Credit Risk Control and Basel II and Market and Operational Risk Management. The function of collateral management, policies and procedures is the function that operates within Strategic, Market and Operational Risk Management.

The most significant types of risk the Bank is exposed to are:

- credit risk,
- market risk and
- operational risk.

34.1. Credit Risk

The Bank is exposed to credit risk, which can be defined as the possibility that a borrower may fail to perform the liabilities defined in the respective loan agreements, resulting in a financial loss for the Bank. Assumption of credit risk is managed in accordance with the specific rules and principles defined by the Group for areas of credit strategies, policies, modeling, risk concentration, new product introduction, monitoring and reporting. Credit risk exposure is managed in accordance with the Bank's strategies and policies in force, as well as other internal bylaws prescribed by the Supervisory Board and the Management Board. Credit risk strategies define the main strategic goals, and determine the limits of credit risk assumption within business operations with all customer segments.

General principles and rules of credit risk management have been established by the Group through a general crediting policy, which the Bank applies in its business operations in accordance with the requirements of the local regulator, Group standards and best practices. General rules and principles have been defined in more detail by specified special crediting policies.

a) Credit Risk Measurement

The following factors are taken into account in credit risk measurement: risk of loss resulting from insolvency of the borrower, risk of loss resulting from a change in the customer risk rating, overall credit risk exposure including balance sheet and off-balance-sheet items of the Bank and the quality and value of collaterals.

34. Risk Management (CONTINUED)

34.1. Credit Risk (CONTINUED)

a) Credit Risk Measurement (CONTINUED)

Credit risk is measured at the level of individual borrower/transaction and at the level of the total portfolio.

With the support of the Group, the Bank is developing and establishing both a system of credit risk measurement on the portfolio basis applying the Basel III basic parameters of credit risk for calculation of expected loss from the loan portfolio, and the calculation of the internal capital requirements to cover potential loss because of the credit risk on the basis of calculation of loan value at risk (VaR). As the measure of economic / internal capital, loan VaR is also the basic input for defining crediting strategies, analysis of credit limits and risk concentration.

The established system of reporting analyzes the main triggers and components of credit risk and their dynamics in order to undertake corrective activities if necessary and on time. Reports contain the information about changes in the size and quality of the loan portfolio at the customer segment level and for the Bank.

b) Risk Control Policies

The Bank manages, limits and controls credit risk concentrations, wherever such risk concentrations have been identified, particularly with regard to specific clients and/or groups of clients, and industry sectors.

The Bank sets the credit risk level, which it assumes by setting limits for the amount of risk accepted in relation to one borrower or group of borrowers, or industry segments. Such risks are monitored on a regular quarterly basis via a report to the Credit Committee of the Bank on credit risk concentration per industry and compliance with the adopted strategy. Additionally, through regular monthly Report for the Credit Committee, Risk Management reports to the Credit Committee on defined limits on the Bank level.

The Credit Committee, Management Board and the Supervisory Board of the Bank are regularly informed of all significant changes in the value and quality of the portfolio.

Credit risk is also managed by the regular analysis of the ability of borrowers and potential borrowers to settle liabilities for principal repayment and interest payment, and change in credit limits where necessary.

In order to minimize the risks from lending activities, the Bank has set up policies for definition, assessment and treatment of collaterals serving as security for collection of receivables, where it demands acceptable collaterals. An acceptable collateral is a pledge over an asset which has a known active market and stable price, whose value is satisfactory relative to the Bank’s receivables and which is sufficient to protect the Bank from possible loss of principal, interest, fees and collection costs.

34. Risk Management (CONTINUED)

34.1. Credit Risk (CONTINUED)

34.1.1. Maximum exposure to credit risk for on and off-balance sheet items

	December 31, 2017 BAM '000	December 31, 2016 BAM '000
Balance sheet assets		
Cash and cash equivalents (Note 17)	170,568	101,815
Obligatory reserve with the Central Bank (Note 18)	116,002	97,146
Loans and receivables due from banks (Note 19)	100,444	165,408
Loans and receivables due from customers - corporate (Note 20)	482,487	459,970
Loans and receivables due from customers - retail (Note 20)	413,742	394,854
Accrued interest	1,433	1,454
Financial assets available for sale (Note 21a)	169,542	155,895
Property and equipment (Note 22)	16,468	16,192
Financial asset at fair value through profit or loss	10	534
Other assets (Note 24)	5,997	3,806
Total balance sheet items exposed to credit risk	**1,476,693**	**1,397,074**
Off-balance sheet items		
Guarantees and other sureties	98,630	83,359
Approved overdrafts, framework loans and guarantees	106,170	106,791
Total off-balance-sheet exposure to credit risk	**204,800**	**190,150**
Balance as at December 31	**1,681,493**	**1,587,224**

The Bank obtains collaterals securitizing loans and receivables in the form of mortgages assigned over real estate, pledge liens assigned over other assets, and guarantees. Initial appraisals of the value of collaterals, or real estate, are performed upon loan approval, i.e., they are an integral part of the process of customer loan request approval. Revaluations are performed in accordance with the principles and rules of the collateral management system. For the purpose of alignment with the Group's techniques for credit risk mitigation, the Bank has implemented functional automatic monitoring of the expired insurance policies for real estate and introduced adjusting factors in cases of currency mismatch of collaterals and loans. The adjusting factors are not applied if the collateral is an item of property or movable assets with the value stated in EUR/BAM currency during the effectiveness of the Currency Board regime. Collaterals are not obtained for loans and receivables due from banks and financial assets available for sale.

In view of the impact of the general financial and economic crisis, there is considerable uncertainty related to the fair market value of such collaterals, along with the time needed to realize the sale thereof.

34.1.2. Credit risk management and policies for impairment and provisions

Impairment and impairment policies

At each reporting date, the Bank checks the existence of objective evidence of impairment of financial assets, as previously explained in Note 3.6.

For the purpose of determining impairment of loans and receivables, the Bank distinguishes two approaches:

- Loans assessed on an individual basis and
- Loans assessed on a group (collective or portfolio) basis (general IBNR and special provisions).

34. Risk Management (CONTINUED)

34.1. Credit Risk (CONTINUED)

34.1.2. Credit risk management and policies for impairment and provisions (CONTINUED)

Loans assessed on an individual basis

Individually significant loans are assessed on an individual basis in order to determine the existence of objective evidence of impairment. Factors that can influence the ability and readiness of each individual debtor to fulfill their obligations toward the Bank, are as follows:

- failure to settle or delay in payment of interest or principal;
- failure to comply with the contractual terms and conditions;
- instigation of bankruptcy proceedings;
- any specific information about business difficulties (e.g., reflected in the insufficient liquidity of the borrower);
- significant changes in the customer's market environment; and
- global economic situation.

Loans assessed on a portfolio basis ("IBNR" and special provisions)

In order to assess the impairment of loans that are not individually significant, such loans are grouped based on the similar credit risk characteristics. The Bank has segmented the loan portfolio into the risk groups based on the credit rating for legal entities and based on the number of days past due for private individuals and, accordingly, applying credit risk parameters (such as probability of default, loss given default, amount that the Bank requires in instances of non-performance of obligations) determined by Basel III and in conformity with IFRS requirements, it impairs loans.

For the purpose of credit monitoring and credit risk management, the Bank divides its credit portfolio into the following groups:

- Performing loans – loans that are neither due nor impaired,
- Past due but not impaired loans, and
- Non-performing loans for which impairment has been recognized.

Breakdown of the loan portfolio according to the above listed categories is provided below:

	December 31, 2017			December 31, 2016		
	BAM '000			BAM '000		
	Loans	Provisions	%	Loans	Provisions	%
Performing and past due loans not specifically impaired						
- Legal entities loans	486,177	6,231	1.3%	455,425	5,562	1.2%
- Private Individuals loans	413,733	5,151	1.2%	392,450	3,889	1.0%
	899,910	**11,382**	**1.3%**	**847,875**	**9,451**	**1.1%**
Non-performing loans						
- Legal entities loans	39,582	37,041	93.6%	48,008	37,901	78.9%
- Private Individuals loans	29,992	24,832	82.8%	30,627	24,334	79.5%
	69,574	**61,873**	**88.9%**	**78,635**	**62,235**	**79.1%**
Total loans	**969,484**	**73,255**	**7.6%**	**926,510**	**71,686**	**7.7%**

Provision coverage of the non-performing portfolio amounts to 88.9% (2016: 79.1%).

34. Risk Management (CONTINUED)

34.1. Credit Risk (CONTINUED)

34.1.2. Credit risk management and policies for impairment and provisions (CONTINUED)

Loans assessed on a portfolio basis ("IBNR" and special provisions) (CONTINUED)

The table below presents the breakdown of gross and net (net of impairment allowance) loans and receivables due from customers:

	December 31, 2017 BAM '000	December 31, 2016 BAM '000
Legal entities		
Loans to customers that are neither due nor impaired	486,082	454,801
Past-due but not impaired loans	95	624
Non-performing loans (impaired loans)	39,582	48,008
Gross exposure	**525,759**	**503,433**
Less: Impairment allowance:		
- Portfolio (IBNR), individual and group impairment allowance	(43,272)	(43,463)
Net exposure	**482,487**	**459,970**
Private Individuals		
Loans to customers that are neither due nor impaired	413,653	392,387
Past due but not impaired loans	80	63
Non-performing loans (impaired loans)	29,992	30,627
Gross exposure	**443,725**	**423,077**
Less: Impairment allowance:		
- Portfolio (IBNR), individual and group impairment allowance	(29,983)	(28,223)
Net exposure	**413,742**	**394,854**
Total gross exposure	**969,484**	**926,510**
Portfolio impairment allowance (IBNR)	(11,382)	(9,451)
Individual and group impairment allowance	(61,873)	(62,235)
Net exposure	**896,229**	**854,824**

34. Risk Management (CONTINUED)

34.1. Credit Risk (CONTINUED)

34.1.2. Credit risk management and policies for impairment and provisions (CONTINUED)

Loans assessed on a portfolio basis ("IBNR" and special provisions) (CONTINUED)

a) Loans to customers that are neither due nor impaired

The quality of the portfolio of loans to customers that are neither due nor impaired can be assessed through the internal standard monitoring system. Loans to customers are regularly monitored and systematically reviewed in order to identify any irregularities or warning signals. These loans are subject to constant monitoring with the aim of taking timely action based on improvement/deterioration of the client risk profile.

Breakdown of gross exposure of loans to customers that are neither due nor impaired according to the type of loan is as follows:

	Loans to Private Individuals				Loans to Legal entities			
	Consumer loans	Housing loans	Credit card loans and approved account overdrafts	Total	Public and financial sector and international client loans	Domestic corporate client loans	Entrepreneurial loans	Total
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
December 31, 2017								
Standard monitoring	302,197	86,749	24,707	413,653	321,669	132,837	31,576	486,082
December 31, 2016								
Standard monitoring	294,738	73,451	24,198	392,387	291,138	138,838	24,825	454,801

34. Risk Management (CONTINUED)

34.1. Credit Risk (CONTINUED)

34.1.2. Credit risk management and policies for impairment and provisions (CONTINUED)

Loans assessed on a portfolio basis ("IBNR" and special provisions) (CONTINUED)

b) Past due but not impaired loans

Loans and receivables due from customers less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amount of loans and receivables due from customers that were past due but not impaired were as follows:

	Loans to Private Individuals				Loans to Legal entities			
	Consumer loans	Housing loans	Credit card loans and approved account overdrafts	Total	Public and financial sector and international client loans	Domestic corporate client loans	Entrepreneurial loans	Total
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
December 31, 2017								
Matured								
- up to 30 days past due	51	-	-	51	-	42	53	95
- 30 - 60 days past due	22	-	-	22	-	-	-	-
- 60 - 90 days past due	7	-	-	7	-	-	-	-
- over 90 days past due	-	-	-	-	-	-	-	-
Total	**80**	**-**	**-**	**80**	**-**	**42**	**53**	**95**
Collateral value	-	-	-	-	-	-	-	-
December 31, 2016								
Matured								
- up to 30 days past due	43	4	-	47	-	624	-	624
- 30 - 60 days past due	10	-	-	10	-	-	-	-
- 60 - 90 days past due	6	-	-	6	-	-	-	-
- over 90 days past due	-	-	-	-	-	-	-	-
Total	**59**	**4**	**-**	**63**	**-**	**624**	**-**	**624**
Collateral value	-	-	-	-	-	25	-	25

34. Risk Management (CONTINUED)

34.1. Credit Risk (CONTINUED)

34.1.2. Credit risk management and policies for impairment and provisions (CONTINUED)

Loans assessed on a portfolio basis ("IBNR" and special provisions) (CONTINUED)

c) Non-performing loans (impaired loans)

The classification of loans to customers that are impaired, together with the allocated value of associated collateral instruments, is as follows:

	Loans to Private Individuals				Loans to Legal entities			
	Consumer loans BAM '000	Housing loans BAM '000	Credit card loans and approved account overdrafts BAM '000	Total BAM '000	Large BAM '000	Medium BAM '000	Small BAM '000	Total BAM '000
December 31, 2017								
Non-performing loans	22,710	4,825	2,457	**29,992**	2,531	20,670	16,381	**39,582**
Collateral value	891	1,942	-	**2,833**	104	4,927	2,257	**7,288**
December 31, 2016								
Non-performing loans	21,806	6,513	2,308	**30,627**	7,442	22,190	18,376	**48,008**
Collateral value	945	2,667	-	**3,612**	624	3,934	2,114	**6,672**

The data shown in the table above are presented in gross amounts.

As at December 31, 2017, assets acquired in lieu of debt collection per non-performing loans amounted to BAM 585 thousand (2016: BAM 190 thousand).

d) Restructured loans and receivables

During the year, the Bank restructured certain loans to customers in order to improve their ultimate recoverability. Restructuring is mainly performed in response to deterioration or for the prevention of further deterioration of the customer financial situation based on an analysis of the possibility of successful restructuring in order to remove difficulties in the client's operations within a defined time limit and return the client to the performing portfolio,

Restructured loans (exposure per all restructured loans irrespective of the remit they belong to – Retail or Corporate and Investment Banking Segments, Restructuring or Special Credit – Workout Units) amounted to a total of BAM 25,068 thousand as at December 31, 2017 (2016: BAM 30,204 thousand).

	December 31, 2017 BAM '000	December 31, 2016 BAM '000
Restructured loans	25,068	30,204
Loan portfolio - gross	969,484	926,510
Share (%) of restructured loans in the gross loan portfolio	2.6%	3.3%

34. Risk Management (CONTINUED)

34.2. Rizik likvidnosti

Liquidity risk represents a risk that the Bank will not be able to settle its financial liabilities fully and without any delay. In this respect, the main target of the Bank, when managing liquidity risk as the central risk inherent in banking operations, is to align its business activities and ensure optimal liquidity in accordance with the minimum standards and limits prescribed by the Banking Agency of the Republic of Srpska, BH Central Bank and the Group.

The Bank has access to various sources of financing, which include different types of deposits of retail and corporate customers, banks (within and out of the Group), and lines of credit. The aforesaid sources enable flexibility of funding sources and limit the dependence on any single source, thus providing a high level of their own sustainability in possible crises.

The Bank has implemented the liquidity policies of the Group, by which there are defined methods and procedures of liquidity parameter analysis, and they cover managing and control of liquidity risk, both in terms of regular business and in crisis situations. In accordance with the Group guidelines, exposure to the liquidity risk is held at the level at which the Bank is able to fulfill its payment obligations on a regular basis, and in the crisis periods as well.

Regular business involves the usual daily activities for which it is unusual for any phase from the Liquidity Policy in crisis situations to be activated.

The most important activities are aimed at carrying out normal market transactions within the prescribed risk exposure limits in accordance with the defined financing plan, as well as decisions of the competent authorities and operational functions.

These activities are mainly focused on managing short-term and long-term liquidity, managing the execution of the financing plan, regular monitoring and analysis of the results of the testing of the liquidity risk stress resistance as well as the consistent application of the principle of determining internal prices.

The risk of short-term liquidity is measured through operational buckets of maturities of up to one year, through net cash flows (inflows/outflows). Short-term liquidity limits the exposures to all currencies as well as the total exposure.

Structural liquidity measures seek to ensure an appropriate balance between assets and liabilities in the medium to long term (over a year), in order to ensure structural stability and limit the dependence on short-term and less stable financing.

The short-term liquidity stress testing measures whether the available liquidity reserves can ensure that the Bank endures a hypothetical shortage of short-term funds. The scenarios are based on the concept of maturity buckets of assets and their renewal. The relevant scenarios are defined in order to present possible events with a potentially negative impact on liquidity. Considering the nature of the liquidity stress test, as the tool for assessing different liquidity risks, the combined scenario is acceptable.

The Bank also adopted the Liquidity Management Policy in Emergency Situations consisting of the Liquidity Management Policy in Emergency Situations and the Emergency Action Plan.

The Bank is obligated to maintain liquidity within the ranges prescribed by the Banking Agency of the Republic of Srpska and the Central Bank of Bosnia and Herzegovina:

- Maintenance of the required reserve,
- Maintenance of decade and daily liquidity, and
- Maturity matching of financial assets and liabilities.

34. Risk Management (CONTINUED)

34.2. Liquidity Risk (CONTINUED)

The following tables show the structural liquidity profile at December 31, 2017 and December 31, 2016, which represents a breakdown of assets and liabilities by appropriate maturity buckets, based on the remaining period of agreed maturity, with the following exceptions:

1) Current and demand savings accounts and overdrafts per current accounts of legal entities and private individuals are mapped based on their estimated stability in compliance with BARS decisions and in accordance with the Group's standards.
2) Securities available for sale are mapped based on the assessment of the period of marketability and pledgeability of the securities with the Central Bank in accordance with the Group's standards.
3) Non-performing loans, other assets, equity and reserves are also mapped according to the Group's standard rules to the longest maturity term.

	Up to a month BAM '000	From 1 to 3 months BAM '000	From 3 to 12 months BAM '000	From 1 to 5 years BAM '000	Over 5 years BAM '000	Total BAM '000
December 31, 2017						
Assets						
Cash and cash equivalents	170,568	-	-	-	-	170,568
Obligatory reserve with the Central bank	116,002	-	-	-	-	116,002
Loans and receivables due from banks	100,444	-	-	-	-	100,444
Financial assets available for sale	2,098	-	62,859	104,468	117	169,542
Financial assets at fair value through profit or loss		-	10	-	-	10
Loans and receivables due from customers	53,697	38,149	209,948	392,496	201,472	895,762
Property and equipment	-	-	-	-	16,468	16,468
Intangible assets	-	-	-	-	5,887	5,887
Other assets	-	-	5,997	-	-	5,997
Deferred tax assets	-	-	16	-	-	16
Total assets	**442,809**	**38,149**	**278,830**	**496,964**	**223,944**	**1,480,696**
Liabilities, equity and reserves						
Deposits and borrowings due to banks	117,890	35,205	132,418	81,605	28,783	395,901
Deposits and borrowings due to customers	130,426	88,301	174,753	239,489	230,659	863,628
Financial liabilities at fair value through profit or loss	-	-	-	-	621	621
Other liabilities	9,257	747	4,417	2,504	-	16,925
Provisions for liabilities and expenses	-	-	2,066	-	-	2,066
Income tax payable	-	417	-	-	-	417
Deferred tax liabilities	-	-	16	-	-	16
Equity and reserves	-	-	-	-	201,122	201,122
Total liabilities, equity and reserves	**257,573**	**124,670**	**313,670**	**323,598**	**461,185**	**1,480,696**
Liquidity gap	**185,236**	**(86,521)**	**(34,840)**	**173,366**	**(237,241)**	**-**

34. Risk Management (CONTINUED)

34.2. Liquidity Risk (CONTINUED)

	Up to a month BAM '000	From 1 to 3 months BAM '000	From 3 to 12 months BAM '000	From 1 to 5 years BAM '000	Over 5 years BAM '000	Total BAM '000
December 31, 2016						
Assets						
Cash and cash equivalents	101,815	-	-	-	-	101,815
Obligatory reserve with the Central bank	97,146	-	-	-	-	97,146
Loans and receivables due from banks	165,408	-	-	-	-	165,408
Financial assets available for sale	79,618	-	394	75,529	354	155,895
Financial assets at fair value through profit or loss	-	-	534	-	-	534
Loans and receivables due from customers	63,758	44,330	201,149	367,190	178,256	854,683
Property and equipment	-	-	-	-	16,192	16,192
Intangible assets	-	-	-	-	4,566	4,566
Other assets	-	-	3,806	-	-	3,806
Deferred tax assets	-	-	3	-	-	3
Total assets	**507,745**	**44,330**	**205,886**	**442,719**	**199,368**	**1,400,048**
Liabilities, equity and reserves						
Deposits and borrowings due to banks	187,527	20,467	132,400	44,386	12,596	397,376
Deposits and borrowings due to customers	99,366	65,204	146,700	299,145	179,802	790,217
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Other liabilities	12,557	1,549	4,371	4,903	79	23,459
Provisions for liabilities and expenses	-	-	2,026	-	-	2,026
Income tax payable	-	300	-	-	-	300
Deferred tax liabilities	-	-	-	-	-	-
Equity and reserves	-	-	-	-	186,670	186,670
Total liabilities, equity and reserves	**299,450**	**87,520**	**285,497**	**348,434**	**379,147**	**1,400,048**
Liquidity gap	**208,295**	**(43,190)**	**(79,611)**	**94,285**	**(179,779)**	**-**

34.3. Market Risk Management

Market risks arise from general and specific trends and changes of certain market variables (interest rates, prices of securities, exchange rate changes), which can affect the economic value the Bank's portfolio in the trading book and in the banking book. The Bank is exposed to market risks mainly because of items and business activities from the banking book.

Market risk exposure management includes the activities related to the operations of the Financial Markets and Assets and Liabilities Management function, and it has been organized through a system of internal bylaws and the setting of defined limits and warning signals that are supervised on a daily basis. Market risk measuring is based on the VaR ("Value at Risk") methodology. VaR is the estimated potential overnight loss which occurs in the overall and in particular items of the balance sheet structure(statement of the financial position) in a defined time period, based on numerous assumptions of changes in market conditions with a confidence level of 99%. The Group uses historic volatility simulation as an assessment model based on the last 500 daily return observations, VaR model quality is continuously monitored by back testing. Beside the VaR methodology, Market Risk Management also uses open FX position limits and base point calculation as a supplement to the set VaR limits.

34. Risk Management (CONTINUED)

34.3. Market Risk Management (CONTINUED)

Factors, which are also of importance for assessment of the market risk impact on the Banks' portfolio, are stress-oriented warning levels and limits and the results are included in regular ALCO reports (reports presented to the Assets and Liabilities Management Committee of the Bank).

The Bank performs activities on market risk limit review closely cooperating with UniCredit Group. These activities are performed at least annually, and more frequently if necessary in accordance with business changes as a result of changes in legislation, development of business strategy goals as well as targeted risk profile.

The set of documents with rules for operations performed by the Financial Markets and Market Risk Management is made in the form of a Financial Markets Rulebook, which is divided into three parts (General, Specific and Unit). Only the permitted risk holders are enabled to enter into the risk-weighted items.

Overview of the Bank's aggregate VaR position:

	2017 BAM '000	2016 BAM '000
- average for the period	647	697
- maximum for the period	712	872
- minimum for the period	559	663

In addition to the Group market risk techniques, methods and measuring models, the Bank continuously works on the improvement of the business processes and data quality.

34.3.1. Currency risk

Currency risk is the risk of the possibility of occurrence of adverse effects on the Bank's financial result and net assets due to volatility in exchange rates. The Bank's exposure to foreign currency risk results from credit, deposit and trading activities and is controlled daily, according to legal and internal Group limits for particular currencies, and in total amount for all assets and liabilities denominated in foreign currencies or indexed to a foreign currency.

Currency risk management includes monitoring and control of individual items in foreign currencies and the total foreign exchange position of the Bank. The open position is determined on the basis of all on-balance and off-balance items. Foreign exchange risk limits restrict the maximum amount of open foreign currency position by currency. The Bank continuously monitors foreign exchange risk through the limits prescribed by local regulations and the Group.

In accordance with the decision of the local regulator, which regulates the minimum standards for managing foreign currency risk, the Bank is obligated to maintain the relationship between assets and liabilities in each single currency so that its total open foreign currency position at the end of each working day does not exceed 30% of its recognized (regulatory) capital.

The Bank directs its business activities so as to minimize mismatch between items of assets and liabilities in foreign currencies or with a contracted currency clause, maintaining daily operations within the range of the set limits.

All sensitivities arising from items in or linked to foreign currencies are also covered by the general daily VaR limit, which among other risks, limits the maximum permitted loss of open positions in the foreign currencies.

34. Risk Management (CONTINUED)

34.3. Market Risk Management (CONTINUED)

34.3.1. Currency risk (CONTINUED)

	2017	2016
Currency risk ratios:		
- as at December 31	15.31%	3.55%
- maximum for the period - month of December	21.47%	19.09%
- minimum for the period - month of December	0.27%	3.55%

Due to the presence of the Currency Board (regime of the Central Bank of Bosnia and Herzegovina) according to which the rate of the national currency to the euro is fixed, it can be considered that the Bank is not exposed to the currency risk related to EUR/BAM exchange rate.

The Bank protects itself from exposure to currency risk in foreign currencies other than EUR by managing foreign currency position, within the Markets' strategy, in such a manner that the items opened through operations with customers are closed by opposite transactions, so that the open position of the Bank is reduced to the minimum.

The analysis of assets and liabilities shown in foreign currency amounts, as at December 31, 2017 and December 31, 2016 is presented in the following table.

	EUR BAM '000	EUR-linked items BAM '000	USD BAM '000	Other currencies BAM '000	Total currencies BAM '000	BAM BAM '000	Total BAM '000
December 31, 2017							
Assets							
Cash and cash equivalents	3,115	-	341	2,038	5,494	165,074	170,568
Obligatory reserve with Central bank	-	-	-	-	-	116,002	116,002
Loans and receivables due from banks	71,594	,	16,332	9,513	97,439	3,005	100,444
Financial assets available for sale	-	103,301	-	-	103,301	66,241	169,542
Financial assets at fair value through profit or loss	-	-	-	-	-	10	10
Loans and receivables due from customers	67,429	490,128	-	-	557,557	338,205	895,762
Property and equipment	-	-	-	-	-	16,468	16,468
Intangible assets	-	-	-	-	-	5,887	5,887
Other assets	76	-	11	21	108	5,889	5,997
Deferred tax assets	-	-	-	-	-	16	16
Total assets	**142,214**	**593,429**	**16,684**	**11,572**	**763,899**	**716,797**	**1,480,696**
Liabilities and equity							
Deposits and borrowings due to banks	377,900	-	-	-	377,900	18,001	395,901
Deposits and borrowings due to customers	257,462	141,185	18,342	11,392	428,381	435,247	863,628
Financial liabilities at fair value through profit or loss profit or loss	-	-	-	-	-	621	621
Other liabilities	2,387	28	10	1	2,426	14,499	16,925
Provisions for liabilities and costs	1,022	-	-	-	1,022	1,044	2,066
Income tax payable	-	-	-	-	-	417	417
Deferred tax liabilities	-	-	-	-	-	16	16
Equity and reserves	3,496	-	-	-	3,496	197,626	201,122
Total liabilities, equity and reserves	**642,267**	**141,213**	**18,352**	**11,393**	**813,225**	**667,471**	**1,480,696**
Net foreign currency position	**(500,053)**	**452,216**	**(1,668)**	**179**	**(49,326)**	**49,326**	**-**

34. Risk Management (CONTINUED)

34.3. Market Risk Management (CONTINUED)

34.3.1. Currency risk (CONTINUED)

An assumed depreciation of foreign currencies (except for EUR) against BAM by 10%, with all other variables remaining unaltered, would have resulted in an increase of profit for the year 2017 by the amount of BAM 149 thousand (2016: increase of BAM 785 thousand).

An assumed appreciation of 10% of foreign currencies other than EUR against BAM would have resulted in a decrease of profit for the year 2017 by the amount of BAM 149 thousand (2016: decrease of BAM 785 thousand).

	EUR BAM '000	EUR-linked items BAM '000	USD BAM '000	Other currencies BAM '000	Total currencies BAM '000	BAM BAM '000	Total BAM '000
December 31, 2016							
Assets							
Cash and cash equivalents	3,910	-	535	2,762	7,207	94,608	101,815
Obligatory reserve with Central bank	-	-	-	-	-	97,146	97,146
Loans and receivables due from banks	148,652	-	821	11,135	160,608	4,800	165,408
Financial assets available for sale	-	86,332	-	-	86,332	69,563	155,895
Financial assets at fair value through profit or loss	-	-	-	-	-	534	534
Loans and receivables due from customers	111,860	414,761	-	-	526,621	328,062	854,683
Property and equipment	-	-	-	-	-	16,192	16,192
Intangible assets	-	-	-	-	-	4,566	4,566
Other assets	62	92	-	14	168	3,638	3,806
Deferred tax assets	-	-	-	-	-	3	3
Total assets	**264,484**	**501,185**	**1,356**	**13,911**	**780,936**	**619,112**	**1,400,048**
Liabilities and equity							
Deposits and borrowings due to banks	347,574	-	-	-	347,574	49,802	397,376
Deposits and borrowings due to customers	246,647	173,669	10,123	12,861	443,300	346,917	790,217
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-
Other liabilities	5,464	512	91	47	6,114	17,345	23,459
Provisions for liabilities and costs	1,022	-	-	-	1,022	1,004	2,026
Income tax payable	-	-	-	-	-	300	300
Equity and reserves	3,496	-	-	-	3,496	183,174	186,670
Total liabilities, equity and reserves	**604,203**	**174,181**	**10,214**	**12,908**	**801,506**	**598,542**	**1,400,048**
Net foreign currency position	**(339,719)**	**327,004**	**(8,858)**	**1,003**	**(20,570)**	**20,570**	**-**

34. Risk Management (continued)

34.3. Market Risk Management (continued)

34.3.2. Interest rate risk

The Bank is exposed to a risk from interest rate fluctuations with an impact on the financial position of the Bank and its cash flows. The Bank's business operations are influenced by interest rates changes, to the extent that interest bearing assets and liabilities mature or their interest rates change at different times or in different amounts, Interest rate margins may grow as the result of those fluctuations, however, at the same time they may decrease and cause losses in the event of unexpected fluctuations.

The main sources of interest rate risk are as follows:

- repricing risk resulting from unfavorable changes in the fair value of assets and liabilities during the remaining period until the next interest rate change (items with fixed interest rate are classified according to the remaining maturity);
- risk of change in inclination and shape of the yield curve (yield curve risk);
- risk of different changes in lending and borrowing interest rates (basis risk) of instruments having identical maturities and denominated in identical currencies, where the interest rates are based on different reference rate types (e.g. EURIBOR vs. LIBOR).

Exposure to the risk of interest rate changes is monitored by means of defined reports and in accordance with the Group guidelines.

Exposure to the interest rate risk will be monitored in accordance with the requirements of the local regulator for significant currencies individually and for all other currencies in the aggregate by monitoring the changes in the economic value of the banking book for: items with a fixed interest rate, variable interest rate, a rate which changes according to the Bank's decision, weighted position as well as the impact of interest rate risk on the net interest income.

The methodology used for risk assessment of interest rate changes is based on the gap analysis of time (maturity) differences. Differences between interest-bearing assets and liabilities in different time "buckets" show how two sides of the balance sheet may react differently to the change of interest rates:

- in case of a positive gap difference, the bank is exposed to a risk of loss in the event that interest rates of given maturities for the relevant currency fall,
- in case of a negative gap difference, the Bank is exposed to a risk of loss in the event that interest rates of the given maturity for the relevant currency grow.

In accordance with the Group's requirements, interest rate risk is measured by calculating the change in the net present value of the portfolio in case of a fall in the reference rate curve by 0.01% (1 basis point) and it is limited by BPV limit (basis point value limit) as a sensitivity measure. BPV limits are defined in summary, per currency and per time buckets. Interest risk is also monitored through the specified VaR model.

Stress testing conducted by the Bank in compliance with UniCredit Group parameters for interest rate risk category includes scenarios of various shocks on interest curves. Shocks include change in interest rate level (parallel shifts), curve rotations, change in curve inclination and peaks in specific segments of interest curves.

The review of the Bank's exposure to interest rate risk on December 31, 2017, and December 31, 2016 is shown in the following tables.

34. Risk Management (CONTINUED)

34.3. Market Risk Management (CONTINUED)

34.3.2. Interest rate risk (CONTINUED)

a) Period of interest rate changes, interest risk analysis and amounts subject to fixed interest rates

Earnings will also be affected by the maturity structure of the Bank's assets and liabilities.

	Up to a month BAM '000	1 – 3 months BAM '000	3 months to 1 year BAM '000	1 – 5 years BAM '000	Over 5 years BAM '000	Non-interest bearing BAM '000	Total BAM '000	Fixed interest rate BAM '000
December 31, 2017								
Assets								
Cash and cash equivalents	129,775	-	-	-	-	40,793	170,568	-
Obligatory reserve with the Central bank	-	-	-	-	-	116,002	116,002	-
Loans and receivables due from banks	55,403	45,041	-	-	-	-	100,444	45,039
Financial assets available for sale	2,098	-	62,859	104,468	-	117	169,542	169,425
Financial assets at fair value through profit or loss	-	-	-	10	-	-	10	10
Loans and receivables due from customers	148,935	277,835	371,240	86,852	10,900	-	895,762	63,318
Property and equipment	-	-	-	-	-	16,468	16,468	-
Intangible assets	-	-	-	-	-	5,887	5,887	-
Other assets	-	-	-	-	-	5,997	5,997	-
Deferred tax assets	-	-	-	-	-	16	16	-
Total assets	**336,211**	**322,876**	**434,099**	**191,330**	**10,900**	**185,280**	**1,480,696**	**377,792**
Liabilities and equity								
Deposits and borrowings due to banks	-	221,244	147,051	27,381	-	225	395,901	283,132
Deposits and borrowings due to customers	521,637	66,119	164,151	106,181	100	5,440	863,628	806,582
Financial liabilities at fair value through profit or loss	-	-	-	-	-	621	621	-
Other liabilities	-	-	-	-	-	16,925	16,925	-
Provisions for liabilities and costs	-	-	-	-	-	2,066	2,066	-
Income tax payable	-	-	-	-	-	417	417	-
Deferred tax liabilities	-	-	-	-	-	16	16	-
Equity and reserves	-	-	-	-	-	201,122	201,122	-
Total liabilities, equity and reserves	**521,637**	**287,363**	**311,202**	**133,562**	**100**	**226,832**	**1,480,696**	**1,089,714**
Bank's interest rate mismatch	**(185,426)**	**35,513**	**122,897**	**57,768**	**10,800**	**(41,552)**	**-**	**(711,922)**

34. Risk Management (CONTINUED)

34.3. Market Risk Management (CONTINUED)

34.3.2. Interest rate risk (CONTINUED)

a) Period of interest rate changes, interest risk analysis and amounts subject to fixed interest rates (CONTINUED)

	Up to a month BAM '000	1 – 3 months BAM '000	3 months to 1 year BAM '000	1 – 5 years BAM '000	Over 5 years BAM '000	Non-interest bearing BAM '000	Total BAM '000	Fixed interest rate BAM '000
December 31, 2016								
Assets								
Cash and cash equivalents	77,465	-	-	-	-	24,350	101,815	-
Obligatory reserve with the Central bank	-	-	-	-	-	97,146	97,146	-
Loans and receivables due from banks	160,608	-	-	4,800	-	-	165,408	63,500
Financial assets available for sale	3,695	-	788	151,059	-	354	155,896	151,847
Financial assets at fair value through profit or loss	-	-	534	-	-	-	534	534
Loans and receivables due from customers	268,140	242,641	276,562	63,239	4,100	-	854,682	59,431
Property and equipment	-	-	-	-	-	16,192	16,192	-
Intangible assets	-	-	-	-	-	4,566	4,566	-
Other assets	-	-	-	-	-	3,806	3,806	-
Deferred tax assets	-	-	-	-	-	3	3	-
Total assets	**509,908**	**242,641**	**277,884**	**219,098**	**4,100**	**146,417**	**1,400,048**	**275,312**
Liabilities and equity								
Deposits and borrowings due to banks	208,176	72,719	111,456	4,800	-	225	397,376	292,872
Deposits and borrowings due to customers	435,963	93,978	87,532	170,398	2,346	-	790,217	729,658
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	23,459	23,459	-
Provisions for liabilities and costs	-	-	-	-	-	2,026	2,026	-
Income tax payable	-	-	-	-	-	300	300	-
Deferred tax liabilities	-	-	-	-	-	-	-	-
Equity and reserves	-	-	-	-	-	186,670	186,670	-
Total liabilities, equity and reserves	**644,139**	**166,697**	**198,988**	**175,198**	**2,346**	**212,680**	**1,400,048**	**1,022,530**
Bank's interest rate mismatch	**(134,231)**	**75,944**	**78,896**	**43,900**	**1,754**	**(66,263)**	**-**	**(747,218)**

34. Risk Management (CONTINUED)

34.3. Market Risk Management (CONTINUED)

34.3.2. Interest rate risk (CONTINUED)

a) Period of interest rate changes, interest risk analysis and amounts subject to fixed interest rates (CONTINUED)

The estimated future cash flows for the Bank's interest bearing liabilities as at December 31, 2017 and 2016 are shown in the following table:

	Up to a month BAM '000	From 1 to 3 months BAM '000	From 3 to 12 months BAM '000	From 1 to 5 years BAM '000	Over 5 years BAM '000	Total BAM '000
December 31, 2017						
Transaction accounts and deposits of banks	-	221,244	147,276	27,381	-	395,901
Transaction accounts and deposits of customers	541,234	115,962	107,185	99,241	6	863,628
Other liabilities	9,257	747	4,417	2,504	-	16,925
Total liabilities	**550,491**	**337,953**	**258,878**	**129,126**	**6**	**1,276,454**
December 31, 2016						
Transaction accounts and deposits of banks	187,940	20,467	132,458	44,481	12,791	398,137
Transaction accounts and deposits of customers	99,711	66,314	149,647	307,526	180,779	803,977
Other liabilities	12,557	1,549	4,371	4,902	79	23,458
Total liabilities	**300,208**	**88,330**	**286,476**	**356,909**	**193,649**	**1,225,572**

b) Effective interest rates

The following table presents the effective interest rates calculated as the weighted average for the financial instruments in the reporting period:

	December 31, 2017 %	December 31, 2016 %
Obligatory reserve with the Central Bank	(0.18)	(0.10)
Loans and receivables due from banks	0.05	0.40
Loans and receivables due from customers	6.08	6.58
Debt securities available for sale	4.73	5.07
Transaction accounts and deposits of banks	1.50	1.87
Transaction accounts and deposits of customers	0.67	1.29
Borrowings	1.47	1.57

34. Risk Management (CONTINUED)

34.3. Market Risk Management (CONTINUED)

34.3.3. Risk of changes in interest rate margin

Within market-risk-measuring techniques, the Bank measures the impact of interest rate margin changes in debt securities with fixed yield. The risk of change in debt securities price due to issuer credit risk change (margin perceived by the market) is measured and limited by CPV limit - basis point credit margin value (Credit Spread Point Value). This limit is similar to Basis Point Value (BPV) and limits the risk of change in the net present value of debt securities portfolio if the impact of interest margin change shifts by 0.01% (1 basis point). BPV limits the overall sensitivity of the Bank's items to changes in interest rates and CPV additionally limits investments in debt securities with regard to the volume and duration.

34.3.4. Interest rate risk in the banking book

Interest rate risk in the banking book is defined as the exposure of the Bank's financial position to undesirable changes in the movement of interest rates arising from assets and liabilities in the banking book.

The limitation system in accordance with the Group's rules is defined by classification of limits and warning levels depending on the type of limitation and the time required for corrective action in case of a limitation violation.

The Bank's management and control of interest rate risk in the banking book is based on the analysis of metrics/indicators from two perspectives:

- economic value and
- earnings.

The main restrictions by means of which the Bank monitors exposure to risk from the perspective of the economic value are:

- BP01 sensitivity – Overall sensitivity and sensitivity per time (maturity) buckets – is calculated as a change in the present value of interest sensitive items arising from the current shock for 1 basis point at each step along the curve. The sum of all sensitivities per time buckets along the curve is BP01.
- EV supervisory standardized shocks – For regulatory reasons, in addition to BP01 metrics, the Group calculates the sensitivity of the economic value as a result of the standard shock due to a sudden parallel displacement of the yield curve by +/- 200 basis points. The impact of the economic sensitivity is measured in relation to Tier 1 capital.

From the perspective of earnings, the Bank monitors the risk exposure through the following limit:

- Sensitivity of the net interest income – The standard sensitivity of the net interest income is calculated based on the scenario of current parallel shocks at rates above the one-year time horizon and assuming a consistent balance and constant margin.

34.4. Operational Risk

Operational risk is a risk of adverse effects on the Bank's financial performance (result) and equity due to omissions or errors made by employees during their work, inadequate or poor internal processes and procedures, inadequate management of the Bank's systems, as well as a result of externally caused unpredictable events. Definition of operational risks includes legal risk.

In accordance with the rules and methodology of the Group as well as BARS regulations, the Bank has established and is continuously improving the operational risk management system. The system includes tools and mechanisms for continuous monitoring of damages that the Bank bears due to operational risks and its exposure to operational risks, the assessment of operational risks within processes and products, monitoring of the key risk indicators and defining the ways to avoid, control or transfer operational risks to third parties, as well as a reporting system.

34. Risk Management (CONTINUED)

34.4. Operational Risk (CONTINUED)

For operational risk loss data recording, recording and monitoring of risk indicators, the Bank uses Group's ARGO tool, whereas for reporting process and data analyses related to operational risks, the Bank uses Group's BO Tool (Business Object Tool).

The Bank's management and the Group are regularly informed and receive reports on the aforementioned processes and indicators which constitute the operational risk management system. In addition, the operational risk management system is aligned with the standards of the Group and local and international regulations.

Given that the Bank is exposed to operational risks in all its business activities and in order to raise awareness about the concept and significance of and responsibilities in process of operational risk management, the Bank has developed a system of electronic education for all its employees.

Taking into account significance of the reputation risk, which is defined as a risk of adverse effects on the Bank's financial performance (result) and equity due to loss of trust in the Bank's integrity triggered by unfavorable public opinion on the Bank's business practices or activities of the members of its boards and other bodies, irrespective of whether the grounds for such an opinion do or do not exist, the Bank manages the reputation risk by means the adopted and implemented special policies and procedures governing the area of the reputation risk management, as well as by ongoing raising of the awareness of its employees of the significance of the reputation risk management using electronic and live trainings for all staff.

34.5. Capital Management

The Bank's objectives in capital management are:

- compliance with capital requirements set by regulators of banks and capital markets,
- maintenance of the Bank's ability to continue the business operations so that it could ensure return to shareholders and benefits for other stakeholders; and
- maintenance of a strong capital basis to support the development of its business activities.

At the beginning of 2017, the new Banking Law of RS entered into force, and during 2017 BARS enacted a number of by-laws on the operation of banks. The aim of the new regulations is to harmonize the regulations governing the business of the banking sector in the Republic of Srpska with Basel II and Basel III Standards.

The new regulations have significantly changed the method of calculating the capital requirements for credit, market and operational risks, the method of calculating capital, as well as the amount of capital ratios that the banks are obligated to maintain continuously, including capital buffers.

The Bank monitors the prescribed ratios and other capital adequacy indicators according to the BARS regulations.

The minimum prescribed rates and ratios that banks must meet at all times are as follows:

- the minimum ratio of the regular core capital of 6.75%;
- the core capital ratio of 9%; and
- the regulatory capital adequacy ratio of 12%.

For each of the above ratios BARS prescribes ongoing maintenance of the capital buffers of 2.5% for preservation of the capital.

34. Risk Management (CONTINUED)

34.5. Capital Management (CONTINUED)

In addition to the prescribed ratios, requirements are planned (still not prescribed) for other capital buffers, i.e. for the combined capital buffer representing the minimum ratio of the regular core capital increased by the preservation of capital buffer and increased by the following buffers, as appropriate:

1) bank-specific countercyclical buffer;
2) buffer for a systemically important bank (prescribed in the range from 0% to 2%; it will be prescribed for each bank individually after BARS has ranked the banks according to the systemic importance); and
3) buffer for systemic risk.

IThe amount of regulatory core (T 1) and regular core capital (CET 1), as well as their rates calculated in accordance with the BARS regulations are shown in the following table:

	December 31, 2017 BAM '000	December 31, 2016 * BAM '000
1. Regulatory capital (2+4)	**174,898**	**161,434**
2. Core capital	**165,948**	**156,172**
3. Regular core capital	**165,948**	**156,172**
3.1. Paid-in equity instruments	97,055	97,055
3.2. Share issue premiums	373	373
3.3. Prior years' retained earnings	25,590	25,588
3.4. Other comprehensive income	(114)	(31)
3.5. Other reserves	48,947	37,756
3.6. Other intangible assets before deducting deferred tax liabilities (gross amount of other intangible assets)	(5,887)	(4,566)
3.7. Deferred tax assets that are dependent on future profitability and do not arise from temporary differences minus related tax liabilities	(16)	(3)
4. Supplementary capital	**8,950**	**5,262**
4.1. General credit risk provisions in accordance with the standardized approach	9,494	10,911
4.2. Supplementary capital components or deductible items - other	(544)	(5,649)
The minimum ratio of the regular core capital (min.6.75%)	18.1	17.8
The core capital ratio (min. 9%)	18.1	17.8
The regulatory capital adequacy ratio (min.12%)	19.1	18.4

** The presented capital for 2016. is calculated according to the regulations, valid at that time, which included Basel 1. standards.*

34. Risk Management (CONTINUED)

34.6. Taxation Risks

The Republic of Srpska and Bosnia and Herzegovina currently have several tax laws in effect, as imposed by various governmental agencies. The applicable taxes include: value added tax, corporate income tax and payroll (social) taxes, among others.

Following their introduction, the regulations governing these taxes were not enforced for substantial periods of time; in contrast to similar legislation in more developed market economies. Moreover, the regulations defining the implementation of these laws are often unclear or non-existent. Hence, few precedents with regard to tax issues have been established in the Republic of Srpska. Often, contrary opinions pertaining to legal interpretations exist both among, and within, governmental ministries and organizations thus creating uncertainties.

Tax returns, along with other areas governed by the law (e.g., customs and currency control matters) are subject to review and investigation by a number of authorities that are legally enabled to impose extremely severe fines, penalties and interest charges. The interpretation of tax legislation by tax authorities as applied to the transactions and activities 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 Procedure of the Tax Administration of the Republic of Srpska, expiration period of the tax liability is five years. This virtually means that tax authorities could determine payment of the outstanding liability in the period of five years from the origination of the liability. The afore-described situation creates tax risks in the Republic of Srpska and Bosnia and Herzegovina that are substantially more significant than those typically existing in countries with more developed tax systems.

35. Managed Funds

The Bank manages funds related to transactions for the account and on behalf of third parties; it records these transactions and funds off balance sheet, separated from its own assets. The Bank charges fees for managing funds on behalf of third parties. Income and expenses per these funds are posted as income or expenses of the owner or user.

Investments related to the managed funds on behalf of third parties are presented in the table below:

	December 31, 2017 BAM '000	December 31, 2016 BAM '000
Consignment investments – MCI	362	475

In 2017, the Bank earned revenues from fees for managed funds on behalf of third parties in the amount of BAM 17 thousand (2016: BAM 0 thousand).

36. Liabilities per Operating Lease Agreements

The Bank has commitments for future payments under operating lease contracts. The contracts are related to the lease of the Bank's branch premises and spaces for installation of ATMs.

The future minimum lease payments under total contracted operating leases are summarized in the table below:

	December 31, 2017 BAM '000	December 31, 2016 BAM '000
Up to 1 year	583	620
From 1 to 5 years	738	1,255
Over 5 years	1	1
	1,322	**1,876**

37. Fair Value of Financial Assets and Liabilities

Fair value represents the amount for which an asset can be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction. It can also be defined as the value at which it is possible to dispose of assets / liabilities, or the appraised value of the neutralization of the market risk arising from the assets / liabilities in the appropriate time-frame.

Assumptions used in assessing and measuring the fair values of financial instruments are based on application of centralized calculation developed at the Group level, which uses IFRS 13 as a unique source of guidelines to measure the fair value.

Financial instruments are considered as quoted on an active market if the quoted prices are easily and regularly available and if the prices represent actual and regular market transactions under common market terms.

All financial instruments are classified in accordance with classification criteria into three different hierarchy levels of fair values:

- Hierarchy Level 1: Fair value is determined on the basis of prices for identical assets or liabilities available as at the measurement date, i.e. if the financial instruments are present in an active market.
- Hierarchy Level 2: Fair value is determined based on a valuation model for which input data are obtained from an active market when it is not possible to use inputs used in assessment of Hierarchy Level 1.
- Hierarchy Level 3: Fair value is determined based on a valuation model for which input data are not present in an active market, i.e. when more significant adjustments are needed.

In its methodology, when determining hierarchy levels for performing loans and deposits of banks and customers, the Group uses the following additional criteria:

- Hierarchy Level 2: (risk-free rate, i.e., FV risk-free – adjusted rate for credit spread for the expected and unexpected loss, i.e., FV risk adjusted) / risk-free rate or FV risk-free ≤ 2%.
- Hierarchy Level 3: (risk-free rate, i.e., FV risk-free – adjusted rate for credit spread for expected and unexpected loss, i.e., FV risk adjusted) / risk-free rate or FV risk-free > 2%.

The Bank classifies non-performing loans (NPL) in accordance with the Group Instructions in such a manner that it equals their carrying and fair values. All assets and liabilities of the Bank are classified into hierarchy Level 2 and Level 3.

The Bank classifies debt securities into Level 2 and the fair value adjustment is performed in accordance with the centralized calculation of the Group.

37. Fair Value of Financial Assets and Liabilities (CONTINUED)

Fair values of the Bank's assets and liabilities in accordance with IFRS 13 are presented in the table below:

	December 31, 2017				December 31, 2016			
	Fair value	Carrying value	Variance		Fair value	Carrying value	Variance	
	BAM '000	BAM '000	BAM '000	%	BAM '000	BAM '000	BAM '000	%
Loans and receivables due from banks	216,193	216,446	(253)	0.12%	262,025	262,554	(529)	(0.2%)
Loans and receivables due from customers	966,560	895,762	70,798	7.90%	915,258	854,683	60,575	7.1%
Total	**1,182,753**	**1,112,208**	**70,545**	**6.34%**	**1,177,283**	**1,117,237**	**60,046**	**5.4%**
Deposits and borrowings due to banks	387,951	395,901	(7,950)	(2.00%)	391,571	397,376	(5,805)	(1.5%)
Deposits and borrowings due to customers	862,752	863,628	(876)	(0.10%)	789,633	790,217	(584)	(0.1%)
Total	**1,250,703**	**1,259,529**	**(8,826)**	**(0.70%)**	**1,181,204**	**1,187,593**	**(6,389)**	**(0.5%)**

Levels of fair value of Bank's assets and liabilities in accordance with IFRS 13 are presented in the table below:

	December 31, 2017 Fair value levels			December 31, 2016 Fair value levels		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000	BAM '000
Loans and receivables due from banks	-	2,470	213,723	-	58,562	203,463
Loans and receivables due from customers	-	109,221	857,339	-	159,677	755,581
Total	**-**	**111,691**	**1,071,062**	**-**	**218,239**	**959,044**
Deposits and borrowings due to banks	-	329,582	58,369	-	328,597	62,974
Deposits and borrowings due to customers	-	102,334	760,418	-	91,394	698,240
Total	**-**	**431,916**	**818,787**	**-**	**419,991**	**761,214**

38. Events After the Reporting Period

After the reporting date, there have been no events that would require additional disclosures in or any adjustments to the financial statements (adjusting events) until the date of their issuance.

It is important to note that as from January 1, 2018, IFRS 9 " Financial Instruments" – First-Time Adoption shall be applied, and that the Bank has calculated the effects until the date of transition to this Standard, which have been recorded as the 2018 opening balances within equity (presented in detail in Note 2.2.).

39. Exchange Rates

The official exchange rates applied in translation of the statement of financial position components denominated in foreign currencies into BAM as at December 31, 2017 and 2016 for the following major currencies were:

	December 31, 2017	December 31, 2016
USD	1.630810	1.855450
CHF	1.671364	1.821240
EUR	1.955830	1.955830

Adopt lean but steering center.

We have created a lean but steering center to drive Group-wide performance and ensure accountability. Through leaner support functions and transparent cost allocation, we focus on efficiency and simplification. We are positioned as best in class in terms of European corporate governance.

Business Network of UniCredit Bank a.d. Banja Luka on 31.12.2017

BRANCH/AGENCY	ADDRESS	TOWN	PHONE NO.
FREE CONTACT LINE			**080/051-051**
REGION BANJA LUKA			
BRANCH BANJA LUKA	Marije Bursać 7	Banja Luka	051/243-200
AGENCY OBILIĆEVO	Carice Milice 2	Banja Luka	051/511-755
BRANCH BANJA LUKA 2	Jevrejska 50	Banja Luka	051/246-662
BRANCH ČELINAC	Kralja Petra I Karađorđevića 65	Čelinac	051/551-145
BRANCH KOTOR VAROŠ	Cara Dušana 28	Kotor Varoš	051/783-260
BRANCH MRKONJIĆ GRAD	Svetog Save 13	Mrkonjić Grad	050/211-138
BRANCH ŠIPOVO	Prve šipovačke brigade 1	Šipovo	050/490-338
REGION KRAJINA			
BRANCH PRIJEDOR	Vožda Karađorđa 9	Prijedor	052/240-385
AGENCY KOZARAC	Maršala Tita bb	Kozarac	052/346-052
BRANCH NOVI GRAD	Karađorđa Petrovića 33	Novi Grad	052/751-756
BRANCH KOZARSKA DUBICA	Svetosavska 5	Kozarska Dubica	052/416-346
BRANCH LAKTAŠI	Karađorđeva 63	Laktaši	051/491-214
BRANCH GRADIŠKA	Vidovdanska bb	Gradiška	051/813-953
AGENCY SRBAC	Mome Vidovića 17	Srbac	051/741-000
REGION DOBOJ			
BRANCH DOBOJ	Karađorđeva 1	Doboj	053/490-350
BRANCH TESLIĆ	Svetog Save 77	Teslić	053/430-211
BRANCH DERVENTA	Kralja Petra 1 Karađorđevića bb	Derventa	053/312-210
AGENCY ŠAMAC	Svetosavska 9	Šamac	054/490-117
BRANCH BROD	Jovana Raškovića bb	Brod	053/621-490
BRANCH PRNJAVOR	Svetog Save 25	Prnjavor	051/660-295
REGION BIJELJINA			
BRANCH BIJELJINA	Patrijarha Pavla 3a	Bijeljina	055/221-289
BRANCH BRČKO	Bulevar mira 5, RK Sloboprom	Brčko	049/217-590
BRANCH UGLJEVIK	Ulica Ćirila i Metodija bb	Ugljevik	055/771-302
BRANCH ZVORNIK	Karađorđeva bb	Zvornik	056/210-341
BRANCH SREBRENICA	Vase Jovanovića 32	Srebrenica	056/440-723
AGENCY BRATUNAC	Svetog Save bb	Bratunac	056/490-166
REGION PALE			
BRANCH PALE	Milana Simovića bb	Pale	057/203-026
BRANCH LUKAVICA	Vojvode Radomira Putnika 38	Lukavica	057/318-299
BRANCH SOKOLAC	Cara Lazara bb	Sokolac	057/401-061
BRANCH ROGATICA	Srpske sloge bb	Rogatica	058/420-092
BRANCH VLASENICA	Svetosavska 82	Vlasenica	056/734-318
AGENCY MILIĆI	Bolnička bb	Milići	056/490-178
REGION TREBINJE			
BRANCH TREBINJE	Kralja Petra Prvog Oslobodioca br. 22	Trebinje	059/270-621
BRANCH BILEĆA	Kralja Aleksandra 14	Bileća	059/370-012
BRANCH GACKO	Trg Save Vladisavića bb	Gacko	059/490-350
BRANCH NEVESINJE	Nevesinjskih ustanika 27	Nevesinje	059/610-470
BRANCH FOČA	Njegoševa 10	Foča	058/220-972